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REPORT TO THE CONGRESS

Local Housing Authorities Can Improve Their Operations And Reduce Dependence On Operating Subsidies

Department of Housing and Urban Development

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on local housing authorities and ways they can improve their operations and reduce dependence on operating subsidies. The report concerns the low-rent public housing program administered by the Department of Housing and Urban Development.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the United States Housing Act of 1937, as amended (42 U.S.C. 1401).

We are sending copies of this report to the Director Office of Management and Budget; the Secretary of Housing and Urban Development; and the Secretary of Health, Education, and Welfare.

James B. Stacks

Comptroller General
of the United States

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ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
LHA	Local Housing Authority

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

LOCAL HOUSING AUTHORITIES CAN
IMPROVE THEIR OPERATIONS AND
REDUCE DEPENDENCE ON OPERATING
SUBSIDIES

Department of Housing and Urban
Development

D I G E S T

WHY THE REVIEW WAS MADE

GAO reviewed the low-rent public housing program, including the operations of 14 local housing authorities, to identify areas in which housing authorities could improve their operations and reduce their dependence on Federal funds.

Local housing authorities are established by local governments to develop, own, and operate low-rent public housing projects. They have received an estimated \$1.1 billion in Federal operating subsidies between the enactment of the 1969 Housing and Urban Development Act, which first authorized the subsidies, and June 30, 1974.

FINDINGS AND CONCLUSIONS

The Department of Housing and Urban Development (HUD) estimated that during fiscal year 1974 about 2,700 housing authorities would be operating with about 1.1 million dwelling units. Because many of them have been experiencing deteriorating financial conditions, operating subsidies had increased from \$108 million in fiscal year 1971 to an estimated \$400 million in fiscal year 1975.

The number of housing authorities in serious financial difficulty has increased in recent years. Housing authorities that HUD classified as being in serious financial difficulty increased from 59 in 1970 to 181 in 1972. These 181 manage about 44 percent of the housing units in the low-rent public housing program. HUD has not updated this classification but it expects this trend to continue. (See p. 4.)

The Housing and Community Development Act of 1974, Public Law 93-383, (Housing Act of 1974) was designed to consolidate, simplify, and improve laws relative to housing and housing assistance. Program areas affected by legislative changes are identified in the digest and discussed in detail in the body of the report.

23 Factors contributing to the
financial deterioration

Major reasons for housing authorities' deteriorating financial conditions include

- increases in the number of extremely low-income tenants in low-rent public housing,
- increases in operating costs due to inflation, vandalism, and the

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provision of new services,
and

--the enactment of Federal
legislation that limited
the amount of rent charged
to tenants.

The pattern of public housing
occupancy changed radically
during the 1950s and 1960s
from "working poor" to families
with less ability to pay. For
example, 26 percent of families
moving into low-rent public
housing in 1952 were receiving
public assistance or benefits;
89 percent of families moving
into public housing in 1973
were receiving public assistance
or benefits.

The median income of low-rent
tenants declined from 58
percent of that of the general
population in 1952 to 30
percent in 1973. (See p. 5.)

Since fiscal year 1968, the
operating expenses of housing
authorities, on a nationwide
basis, have exceeded rental
revenue. Their expenses have
increased partially due to
inflation and the provision
of new services, such as tenant
counseling and financial audits
of housing authority operations.
(See p. 7.)

HUD estimated that Federal
legislation has reduced housing
authority rental revenue by
about \$167 million annually.
This legislation was enacted in
1969, 1970, and 1971 and generally
limits tenants' rent payments to

25 percent of their adjusted
incomes--gross family income
less several exclusions of
income. (See p. 11.)

The Housing Act of 1974 retained
the 25-percent limitation, but
established a minimum rent which
each tenant must pay.

Opportunity to establish
more equitable rent schedules

The New York City and Philadelphia
housing authorities could have
increased their annual revenue by
about \$9 million and \$441,000,
respectively, by charging "over-
income" tenants rents comparable
to the cost for providing the
units they occupied without
exceeding existing statutory
limitations. Under the Housing
Act of 1937, as amended, these
tenants are allowed to remain if,
after making every reasonable
effort, they are unable to find
decent affordable housing and if
they pay an increased rent con-
sistent with their higher incomes.

Although the provisions dealing
with overincome tenants were
deleted by the Housing and
Community Development Act of
1974, tenants' ability to pay
should be recognized and con-
sidered in the establishment of
rent schedules.

In some instances, housing
authorities could charge other
than overincome tenants higher
rents which are more in line
with operating costs and still
be within statutory limitations.
Many of these authorities were

experiencing operating losses and depending on Federal operating subsidies for financial solvency. (See p. 14.)

Improvements needed in rent collection efforts

Accounts receivable (rent delinquencies) at 14 housing authorities GAO visited ranged from \$78 to \$2.8 million at the end of the authorities' 1973 fiscal year. Collection losses that fiscal year totaled about \$1.2 million, and ranged from zero to about \$954,000. Rent collection procedures at the 14 housing authorities appeared to be adequate; however, some authorities were not carrying out their procedures aggressively. (See p. 22.)

Although housing authorities are required to submit a report containing information on tenants' accounts receivable to HUD area offices quarterly, several area office officials told GAO that the reports are not monitored to determine if an authority is experiencing a rent collection problem.

GAO observed that a large number of delinquent accounts at the Philadelphia and Dallas housing authorities were those of welfare recipients. A large percentage of public housing tenants depend on some type of public assistance. These tenants, who fail to pay

their rents, have contributed to the serious financial losses experienced by housing authorities. Federal legislation permits, at the option of each State, State welfare agencies to make rent payments (vendor payments) to housing authorities on behalf of certain welfare recipients.

Increased use of vendor payments by State welfare agencies directly to housing authorities for chronically delinquent welfare tenants who meet the statutory conditions for making vendor payments could help reduce housing authorities' financial losses. (See p. 28.)

Action needed to reduce vacancies and vandalism

The most recent available statistics on HUD activities nationwide show that over 54,000 low-rent public housing units were vacant as of June 30, 1972. Since housing authorities were managing about 1 million units on that date, the vacancy rate was 5.5 percent. About 30,000 of these vacant units were unavailable for occupancy for various reasons. HUD officials consider a 5-percent vacancy rate as acceptable for low-rent public housing.

At the 14 authorities GAO visited, the vacancy rate ranged from 29 percent at one authority to no vacancies at another. These authorities had a combined estimated loss of \$1.3 million in rent revenue during their 1973 fiscal year due to vacancies. High vacancy rates are attributable

to several causes--one being that some projects are located in high crime areas. (See p. 32.)

Vandalism can lead to vacancies because it creates undesirable living conditions in the neighborhoods and forces the removal of the units from the market until repairs are made. This is frequently a long period as funds for extensive repairs or rehabilitation are seldom readily available.

HUD estimated that vandalism costs all housing authorities about \$17.5 million annually.

GAO believes that the serious financial and management problems confronting housing authorities today and their increasing dependence on Federal operating subsidies requires that HUD more aggressively fulfill its statutory responsibilities of insuring that low-rent public housing projects are operated and maintained by housing authorities in a manner which promotes efficiency, economy, and serviceability. (See p. 44.)

RECOMMENDATIONS

The Secretary of HUD should establish procedures requiring local housing authorities, as a prerequisite to receiving annual operating subsidies, to:

--Develop and maintain equitable rent schedules which appropriately reflect local housing authority costs, recognize the

tenants' ability to pay, and are consistent with current statutory limitations. (See p. 20.)

--Demonstrate that they are effectively carrying out their rent collection procedures. (See p. 31.)

The Secretary of HUD should also:

--Require HUD area offices for those local housing authorities experiencing an unacceptable level of rent delinquency and collection losses to assist the authorities in minimizing the problem. (See p. 31.)

2 --Arrange with the Department of Health, Education, and Welfare to (1) encourage State welfare agencies to make vendor payments to local housing authorities for housing provided to certain welfare recipients who are chronically delinquent in making rent payments and who meet all the statutory conditions related to vendor payments and (2) explore the development of procedures governing the conditions in which certain welfare recipients, at the option of each State, can voluntarily arrange to have a portion of their assistance payments made payable to an authority for rent purposes. (See p. 31.)

--Identify all local housing authorities that have a high vacancy rate due to uninhabitable units and work with these authorities to develop a mutually acceptable action plan for (1) preparing the housing units for occupancy or (2) demolishing the units. (See p. 45.)

AGENCY ACTIONS AND UNRESOLVED
ISSUES

HUD generally agreed with GAO's recommendations and cited recent legislative changes and programs which it initiated and which it feels address the issues contained in the report. (See app. IV.) HUD did not agree, however, that operating subsidies be withheld from local housing authorities pending effective application of rent collection procedures. HUD pointed out that some authorities are faced with external circumstances that make effective rent collection difficult.

GAO recognizes that many external factors limit local housing authorities' effectiveness in carrying out their rent collection efforts. However, these factors should not prevent HUD from limiting operating subsidies

to authorities which are not aggressively attempting to collect rents legally due. When factors beyond an authority's control adversely affect the effectiveness of its rent collection efforts, HUD should not withhold operating subsidies solely for that reason. (See p. 30.)

HUD and the Department of Health, Education, and Welfare agreed to work together to encourage the use of vendor payments in appropriate cases. (See p. 31.)

MATTERS FOR CONSIDERATION
BY THE CONGRESS

This report directs attention to the financial problems facing many local housing authorities and discusses areas in which authorities can make improvements to reduce their dependence on Federal operating subsidies.

CHAPTER 1

INTRODUCTION

The United States Housing Act of 1937, as amended (42 U.S.C. 1401 et. seq.), authorizes the Department of Housing and Urban Development (HUD) to conduct an assistance program for low-rent public housing. Under this program, decent, safe, and sanitary dwellings are to be made available to families that cannot afford standard private housing. According to State legislation, local governments establish local housing authorities (LHAs) as independent legal entities to develop, own, and operate low-rent public housing projects.

LHAs are primarily responsible for developing and administering federally subsidized low-rent public housing projects, including establishing admission policies and rent schedules subject to HUD approval. LHAs may acquire public housing projects by leasing or purchasing existing structures or by constructing new projects.

HUD financially assists LHAs by making loans for developing new housing projects and by making annual contributions according to contracts with LHAs. Annual contributions are for (1) paying the principal and interest (debt service) on bonds and notes sold by LHAs to the public or, in some cases, to HUD to obtain funds for developing the projects and (2) paying operating subsidies.

Annual contributions for debt service have been part of the public housing program since its inception in 1937. Operating subsidies consist primarily of amounts paid to LHAs complying with the 1969, 1970, and 1971 amendments to the housing act enabling LHAs to achieve and maintain adequate operating and maintenance services and to insure financial solvency of housing projects. HUD's annual contributions to LHAs under the public housing program for fiscal years 1971 through 1975 are presented below.

Annual Contributions

	<u>Actual</u>			<u>Estimated</u>	
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Number of eligible dwelling units	<u>892,651</u>	<u>989,419</u>	<u>1,047,000</u>	<u>1,128,000</u>	<u>1,205,000</u>
	(000 omitted)				
Debt service	\$518,354	\$644,114	\$ 753,441	\$ 913,000	\$1,073,000
Operating subsidies	<u>108,000</u>	<u>245,000</u>	<u>348,369</u>	<u>350,000</u>	<u>400,000</u>
Total	<u>\$626,354</u>	<u>\$889,114</u>	<u>\$1,101,810</u>	<u>\$1,263,000</u>	<u>\$1,473,000</u>

In addition to providing financial aid, HUD (1) provides technical assistance to LHAs in developing projects and (2) reviews the administration of the projects after construction to determine whether they are being operated and maintained to conform to statutory requirements and in a manner which promotes efficiency, economy, and serviceability. HUD area and regional office staffs assist LHAs in planning, developing, and managing the housing projects. Historically, HUD has viewed its role in public housing to be one of controlling LHAs' expenditures and providing advice and assistance to LHAs.

HUD estimated that during fiscal year 1974 about 2,700 LHAs were in operation with about 1.1 million dwelling units. Over 3 million people, or approximately 1.5 percent of the U.S. population, live in low-rent public housing.

BROOKE AMENDMENTS

Beginning in December 1969, a series of amendments to the Housing Act of 1937 were enacted which are commonly referred to as the Brooke amendments.

Brooke amendment I, enacted in December 1969 (83 Stat. 379, 389), provided that tenants in low-rent public housing shall not pay rent of more than 25 percent of their net income, as defined by the Secretary of HUD. The Secretary defined "net income for rent" as total family income less (1) 10 percent of family income, (2) \$100 for each dependent, and (3) other exclusions, such as income of full-time minor students, medical costs,

and irregular income. One major effect of this amendment was to eliminate minimum rents previously established by LHAs in those instances where such rents exceeded the 25-percent limitation.

Brooke amendment II, enacted in December 1970 (84 Stat. 1770, 1778), legislatively defined "income for rent" as the total of the income of each family member residing in the household who is at least 18 years of age, excluding nonrecurring income as defined by the Secretary of HUD and the income of full-time students. It also provides for the deduction of (1) \$300 for each dependent, (2) \$300 for each secondary wage earner, (3) 5 percent of the family's gross income (10 percent in the case of elderly families), and (4) extraordinary medical expenses. The principal effect of this amendment was to further reduce the income on which rent was computed.

Brooke amendment III, enacted in December 1971 (85 Stat. 775, 776), required LHAs to apply the 25-percent limitation to welfare tenants and to prohibit public assistance agencies from reducing their welfare payments, a portion of which was designated for rent purposes, as a result of this limitation. Before this amendment, the 25-percent provision did not apply to cases in which the Secretary determined that limiting a tenant's rent to 25 percent of net income would result in a reduction in welfare assistance payments to the tenant.

In August 1974 the Housing and Community Development Act of 1974, Public Law 93-383, (Housing Act of 1974) was enacted to consolidate, simplify, and improve laws relating to housing and housing assistance. This act retains the 25-percent limitation with the exception that rental for any dwelling unit in regular public housing¹ shall not be less than the higher of (1) 5 percent of the family's gross income or (2) the amount of welfare assistance received by a tenant that is designated by a public assistance agency as housing costs.

¹Does not include housing under the new leased housing program which has its own income criteria.

CHAPTER 2

FACTORS CONTRIBUTING TO THE FINANCIAL DETERIORATION OF LHAs

HUD estimated that by June 30, 1974, LHAs would receive over \$1.1 billion in Federal operating subsidies since the 1969 Housing Act enactment. Operating subsidies to LHAs had increased from \$108 million in fiscal year 1971 to an estimated \$400 million in fiscal year 1975. During fiscal year 1973, about 1,140 LHAs, which managed about 84 percent of all housing units in the program, received operating subsidies.

The number of LHAs HUD considered to be in serious financial difficulty had increased from 59 as of June 30, 1970, to 181 as of June 30, 1972. HUD has not updated this classification but expects the number of LHAs in serious financial difficulty to continue to increase. The 181 LHAs were managing 44 percent of the total housing units in the low-rent public housing program.

Our review of the low-rent public housing program, involving the operations of 14 LHAs in five States, showed the major reasons for LHAs' financial deterioration had been (1) increased number of extremely low-income tenants in low-rent public housing, (2) increased cost of operations due to inflation, vandalism, and the provision of new services, and (3) Federal legislation which limited the amount of rent charged to tenants. A list of the LHAs we reviewed, along with other pertinent information, is included as appendix I.

Major reasons for LHAs deteriorating financial condition are discussed in this chapter. Areas in which LHAs have an opportunity to improve their operations and thereby reduce their dependence on operating subsidies are discussed in chapters 3 through 5 of this report. These areas include the (1) establishment of equitable rent schedules based on tenants' ability to pay, (2) reduction of rent delinquencies and collection losses, and (3) actions needed to minimize vacancies and vandalism.

CHANGING COMPOSITION OF TENANTS

In the early years of public housing, LHAs were required to pay their administrative and operating expenses primarily from rent income. Most families occupying public housing were described as "working poor" and could pay rents that were sufficient to meet

LHAs' regular operating and administrative expenses. These families also allowed LHAs to build up cash reserves. When these reserves exceeded the maximum limit established by HUD, the excess was remitted to HUD, thereby reducing the total annual Federal contribution.

Since 1937 various amendments to the Housing Act have been enacted that have affected the characteristics of families occupying low-rent public housing. The principal legislative changes are summarized below and are listed in appendix II.

The Housing Act of 1949 contained several important provisions to insure that occupancy of public housing projects would be limited to low-income families. First, the act established upper rental limits for such projects at a level 20 percent below the level at which private enterprise was supplying decent housing on the private market. Second, the act prohibited discrimination against welfare families in terms of their eligibility for admission to low-rent projects. Third, the act required LHAs to establish maximum income limits for admission and continued occupancy, thus requiring those families whose incomes increased above preset limits to leave public housing. These provisions were enacted to insure the low-rent character of public housing. Subsequent legislation declared the policy of making adequate provisions in public housing for the elderly and for larger families.

In the late 1950s, LHAs began to experience the financial impact of the lower rent levels charged families with extremely low incomes. In 1961 legislation provided special family subsidies to compensate LHAs for housing the elderly, and in 1968 the subsidies were made applicable for housing large families and those with extremely low incomes.

The number of families in low-rent public housing receiving public assistance or benefits, such as social security, has increased greatly. In 1952 about 26 percent of families moving into low-rent projects received public assistance or benefits. The median income of these tenants was about 58 percent of the income level of the general U.S. population. In comparison, 89 percent of the families moving into low-rent projects during the 6-month period ended March 1973 received public assistance or benefits and had a median income of 30 percent of that of the general population.

The increased emphasis on admitting elderly families in recent years has also limited the amount of rent which can be collected. In 1956 elderly families represented 5 percent of the total families moving into public housing compared with 49 percent for the 6-month period ended March 1973. The median income of elderly tenants, which was reexamined by LHAs during the 6-month period ending March 1973, was about 23 percent of the median income of the general U.S. population and only 75 percent of the median income of all families in low-rent projects.

Tenant composition of the Dallas, Texas, LHA is presented below to demonstrate tenant composition of a large LHA. Records of the Dallas LHA showed that as of April 15, 1973, most of the 5,871 families occupying its rental units¹ depended on some form of income other than from employment.

<u>Source of income</u>	<u>Number of recipient families</u>
Earnings	1,934
Aid to families with dependent children	2,904
Social security	1,087
Old-age assistance	302
Other public assistance	<u>399</u>
	<u>^a6,626</u>

^aThis amount is greater than 5,871 because some families had multiple sources of income.

Between April 1969 and April 1973, the average annual family income of Dallas LHA tenants declined 27 percent, due largely to a sharp decline in the number of employed families and an increased number of public assistance recipients.

¹ Excluding elderly and homeownership projects.

<u>April 15</u>	<u>Employed families</u>	<u>Public assistance recipients</u>	<u>Average family income</u>
1969	3,731	2,715	\$2,203
1970	3,222	2,857	2,182
1971	2,432	4,016	1,854
1972	2,168	4,502	1,760
1973	1,934	4,692	1,612

LHAs' OPERATING DEFICITS

Since fiscal year 1968, LHAs' operating expenses nationwide have exceeded rental revenue. LHAs' expenses have increased partially due to inflationary pressures and the provision of new or expanded services to the tenants. Concurrently, LHAs' rental revenue has not kept abreast of the increases in expenses, partially because of the gradual change in the pattern of public housing occupancy for tenants with less ability to pay increased rentals and Federal legislation that sets rent limits.

LHAs' per unit month receipts, expenditures, and residual receipts for fiscal years 1960, 1970, and 1972 presented in the following schedule illustrate the changes that occurred during this period.

Comparison of LHAs' Receipts, Expenditures, and Residual Receipts
for FYs 1960, 1970, and 1972

<u>Classification</u>	<u>FY 1960</u> <u>per unit</u> <u>month</u>	<u>FY 1970</u> <u>per unit</u> <u>month</u>	<u>FY 1972</u> <u>per unit</u> <u>month</u>	<u>FY 1960 to 1972</u> <u>percent change</u>	
				<u>Increase</u>	<u>Decrease</u>
Operating receipts:					
Rental income	\$38.25	\$49.18	\$45.08	17.9	
Other income	1.08	1.89	2.23	106.5	
Total operating income	<u>\$39.33</u>	<u>\$51.07</u>	<u>\$47.31</u>	20.3	
Operating expenditures:					
Routine:					
Administration	\$ 6.33	\$ 8.86	\$10.00	58.0	
Utilities	8.79	12.45	15.52	76.6	
Maintenance and operations	12.53	18.32	21.93	75.0	
Payments in lieu of taxes	2.79	3.41	2.83	1.4	
Collection losses	.24	.22	.48	100.0	
Other general expenses	.81	3.87	5.63	595.1	
Tenant services	-	-	.83	-	
Total routine	31.49	47.13	57.22	81.7	
Nonroutine expenses	2.27	4.42	4.43	95.2	
Provision for operating reserves	2.87	.47	.22	-	93.3
Miscellaneous adjustments	-	.19	1.60	-	-
Total expenditures	<u>\$36.63</u>	<u>\$51.83</u>	<u>\$60.27</u>	64.5	
Net from operations	\$ 2.70	-\$ 0.76	-\$12.96	-	580.0
Operating subsidies	-	2.20	13.46	-	-
Residual receipts	<u>\$ 2.70</u>	<u>\$ 1.44</u>	<u>\$ 0.50</u>	-	81.5

To illustrate the impact of inflation on LHAs' operations since 1960, we compared, as shown in the schedule on page 10, LHAs' per unit month income and expenses for 1960 and 1972. This comparison shows changes on both an actual dollar basis and a constant 1960 dollar basis as adjusted by changes in the Consumer Price Index.

As shown on page 10, between 1960 and 1972 LHAs experienced a 20.3-percent increase in operating receipts in actual dollars. However, when considering inflation, the value of operating receipts to LHAs decreased 44.6 percent during this period. Concurrently, LHAs' expenditures had increased 64.5 percent between 1960 and 1972 in actual dollars, but with inflation, the value of LHAs' goods and services actually decreased 24.3 percent.

Examples of new or expanded LHA services are social programs and financial audits. LHA and HUD officials told us that changes in tenant composition over the years led to an increased number of low-rent tenants needing social services. Therefore, in 1968 HUD established various social goals and encouraged LHAs to initiate or expand social programs or services, such as tenant counseling, and to support tenant councils.

Before July 1972, HUD made financial audits of LHAs at no cost to LHAs. Starting in July 1972, HUD adopted a policy requiring LHAs having less than 5,000 units to biennially have independent public accountants make the financial audits at LHAs' expense.¹ The importance of this added cost is demonstrated in the schedule below.

<u>LHA</u>	<u>Number of units</u>	<u>Years covered by audit</u>	<u>Cost of audit</u>	<u>Approximate percent of LHAs' annual revenue</u>
Ector, Texas	10	5	\$1,050	7.3
Whitney, Texas	24	6	1,664	3.9
Tom Bean, Texas	20	5	1,360	4.4
Anson, Texas	82	5	3,054	3.0

¹In May 1974, HUD initiated a policy to reimburse certain LHAs for the cost of independent public accountant audits.

Actual Dollar and Constant Dollar Changes in
LHAs' Operations from 1960 to 1972

<u>Classification</u>	<u>FY 1960 per unit month</u>		<u>FY 1972 per unit month</u>		<u>FY 1960 to 1972 percent change</u>	
	<u>Actual dollars</u>	<u>Constant dollars</u>	<u>Actual dollars</u>	<u>Constant dollars (note a)</u>	<u>Actual dollars</u>	<u>Constant dollars</u>
Operating receipts (excluding subsidies)	\$39.33	\$39.33	^b \$47.31	\$21.77	20.3	-44.6
Total expenditures	\$36.63	\$36.63	\$60.27	\$27.72	64.5	-24.3

^aConstant 1960 dollars from Consumer Price Index.

^bDuring FY 1972 LHAs received operating subsidies of \$13.46 per unit month.

A graph showing the national trend for LHAs receipts and expenditures between fiscal years 1966 and 1972 is included as appendix III.

EFFECTS OF BROOKE AMENDMENTS

HUD has estimated that the Brooke amendments have resulted in an annual reduction of about \$167 million in LHAs' rental income. Of the 14 LHAs we visited, 4 had estimated that they were sustaining a combined annual reduction in rental income of about \$25 million due to the Brooke amendments.

Before the enactment of Brooke I, HUD paid annual contributions to liquidate capital costs of housing projects developed by LHAs and to subsidize losses for housing certain categories of low-income families (special family subsidies). LHAs were expected to pay operating expenses out of their operating income, which consisted primarily of rents paid by the tenants. Before Brooke I, LHAs could increase rents to meet increasing costs, subject only to the limitation that rents not exceed 80 percent of the lowest rents at which private enterprise was supplying decent housing on the private market.

The National Center for Housing Management, Inc., under a HUD contract, published a 1973 Task Force report that showed by the late 1960s some LHAs, to meet operating expenses, were charging many low-income families rents of 50 to 75 percent of their incomes. In 1969, 1970, and 1971, the Congress amended the Housing Act (Brooke amendments) to provide that no tenant would have to pay more than 25 percent of his adjusted gross income for rent.

Several LHAs we visited made studies to determine the effect of the Brooke amendments on their revenues. The results are shown below for the larger LHAs.

<u>LHA</u>	<u>Fiscal year</u>	<u>Estimated annual reduction in rental revenue</u> (000 omitted)
New York City	1972	\$16,800
Philadelphía	1973	7,000
Los Angeles	1972	900
Dallas	1972	685

At several of the smaller LHAs we visited, revenue reduction was also great. The studies and analyses we made of LHAs showed the following estimated reductions in annual rents for fiscal year 1973.

<u>LHA</u>	<u>Annual rental revenue before Brooke amendments</u>	<u>Estimated reduction</u>	<u>Percent</u>
Upland, California	\$ 51,660	\$ 6,742	13.1
Alto, Texas	6,430	744	11.6
Burkburnett, Texas	9,300	1,224	13.2
Crockett, Texas	101,710	11,124	10.9
Munday, Texas	5,210	1,212	23.3

Application of rent limitation to welfare recipients

Brooke III, enacted in December 1971, required LHAs to apply the 25-percent limitation to welfare tenants and also prevented public assistance agencies from reducing their rental payments to recipients because of the 25-percent rent limitation. Previously, the 25-percent provision did not apply in cases where limiting a tenant's rent would result in a reduction in assistance payments to the tenant.

The Housing and Community Development Act, enacted in August 1974, retains the 25-percent limitation with the exception that rental for any dwelling unit in regular public housing shall not be less than the higher of (1) 5 percent of the family's gross income or (2) the amount of welfare assistance received by a tenant that is designated by a public assistance agency as housing costs.

Philadelphia LHA

At the time of our review, 85 percent of the Philadelphia LHA's tenants were totally or partially dependent on welfare. Before carrying out Brooke amendment III, the LHA's rent revenue was gradually increasing. The average rent per unit increased from \$54.88 in fiscal year 1968 to \$71.16 in fiscal year 1971. A partial effect of the implementation of Brooke III was noted in the fiscal year ended March 31, 1972, when the average

rent dropped to \$66.55. The effect was greater in fiscal year 1973, when the average rent was further reduced to \$50.31.

The following schedule shows the effect that Brooke amendment III had on rents paid by various welfare recipients.

<u>Family size (persons)</u>	<u>Shelter allowance received by family</u>	<u>Rent paid after Brooke amendment III</u>	<u>Difference</u>
2	\$ 84	\$43	\$41
4	88	53	35
10	100	76	24
14	108	94	14

The welfare recipient's shelter allowance is the amount paid by a public assistance agency to the tenant for shelter and utilities. LHA officials said that welfare recipients not occupying public housing usually would be required by pay the entire amount of the shelter allowance to their landlords.

New York City LHA

The New York City LHA estimated that using Brooke amendment III resulted in about a \$12 million annual reduction in rent revenue. For its federally aided projects, the LHA reduced rent charges for nonwelfare tenants during March 1970 and for its welfare tenants on June 1, 1973. LHA officials said they delayed implementing Brooke III because HUD did not provide subsidies to replace the revenue losses. During our review, the LHA began to make retroactive payments to welfare families for the rent they had paid above the 25-percent limitation between the effective date December 22, 1971, and July 1, 1973. These payments amounted to about \$16.6 million.

The Brooke amendments do not apply to welfare recipients and other low-income tenants in State- and city-aided low-rent housing projects in New York City. According to LHA officials, these tenants will continue to pay much higher rents than tenants with identical income levels who reside in federally aided projects.

CHAPTER 3

OPPORTUNITY FOR LHAs TO ESTABLISH MORE EQUITABLE RENT SCHEDULES

LHAs can increase their revenues by establishing more equitable rent schedules. For example, the New York City and the Philadelphia LHAs could have increased their annual revenue by about \$9 million and \$441,000, respectively, by charging "overincome" tenants¹ rent comparable to the cost of their units. In other instances, LHAs could charge tenants higher rents which are more in line with operating costs without exceeding existing statutory limits.

OVERINCOME TENANTS

According to the Housing Act of 1937, as amended, families whose incomes exceed the level for continued occupancy in low-rent public housing could remain if, after making every reasonable effort, they were unable to find decent affordable housing and if they paid an increased rent consistent with their higher incomes. LHAs, with HUD approval, were responsible for establishing rent and income criteria for admission and continued occupancy for their projects, including the rent charged to overincome tenants.

Although the provisions dealing with overincome tenants were deleted by the Housing and Community Development Act of 1974, we believe that tenants' ability to pay should be recognized and considered in the establishment of rent schedules.

New York City LHA

This LHA used two continued occupancy income levels--one for charging overincome tenants a surcharge rental and one for establishing the point when tenants were ineligible for public housing.

Tenants whose annual incomes exceeded the lower continued occupancy levels were subject to rent surcharges. The income levels at which surcharges were applicable ranged from \$5,500 for an efficiency apartment to \$8,800 for five or more bedrooms. Surcharges were levied in

¹Tenants having incomes exceeding the level for continued occupancy in low-rent public housing.

increments of \$5 a month for each \$500 (or fraction thereof), not to exceed \$45 a month. No surcharge was levied on the first \$500 that exceeded the established levels.

In addition, the New York City LHA had established, and HUD had approved, continued occupancy income levels above which tenants were considered ineligible to occupy public housing. In 1973 these levels ranged from \$7,155 for an efficiency apartment to \$12,990 for a five-bedroom unit. Tenants with annual incomes above these levels are eligible to remain in public housing if they cannot find adequate housing in the private market at reasonable rentals.

At July 31, 1972, the New York City LHA housed 86,693 families who annually paid \$94 million for rent, or an average of 20.3 percent of their combined annual incomes. Of these, 12,136 had incomes exceeding the income surcharge levels. These tenants were paying an average 12.6 percent of their adjusted incomes for rent.

The New York City LHA could have realized an estimated \$9 million in revenue by charging the 12,136 overincome tenants an economic rent¹ which would recover cost and still not exceed the 25-percent statutory limitation.

Gross income ranges	Number of overincome tenants	Rent income		Potential additional revenue
		Current	Economic	
\$ 5,500 to 7,999	208	\$ 198,557	\$ 329,424	\$ 130,867
8,000 to 8,999	413	457,789	731,016	273,227
9,000 to 9,999	1,914	2,226,682	3,711,144	1,484,462
10,000 to 10,999	2,284	2,832,169	4,696,656	1,864,487
11,000 to 11,999	1,901	2,579,936	4,128,612	1,548,676
12,000 to 12,999	1,569	2,307,449	3,529,824	1,222,375
13,000 to 13,999	1,157	1,845,642	2,644,968	799,326
14,000 to 14,999	872	1,484,687	2,015,508	530,821
15,000 to 17,499	1,185	2,095,928	2,791,836	695,908
17,500 to 19,999	429	768,466	1,039,020	270,554
20,000 to 34,551	204	375,093	513,948	138,855
Total	<u>12,136</u>	<u>\$17,172,398</u>	<u>\$26,131,956</u>	<u>\$8,959,558</u>

¹The amount needed to cover the debt service payment and operating expenses for a dwelling unit.

These tenants paid an average 12.6 percent of their adjusted incomes for rent and, by paying an economic rent, would pay an average 19.2 percent. Tenants in the lowest overincome strata paid 13.4 percent of their adjusted incomes for rent and, by paying an economic rent, would pay 22.3 percent. Rents paid by the 204 families with gross incomes between \$20,000 and \$34,551 ranged from \$90 to \$207 a month.

An illustration of the situation we found concerns a family that first became an occupant of public housing in September 1954. At that time, the family size was five; the family had adjusted income for rent of \$2,851 a year and paid a monthly rent of \$52. In July 1972, the family size was four; the family adjusted annual income was \$17,644, and it paid \$140 monthly rent. During this 18-year period, family adjusted income had increased over 500 percent and rent had decreased from 21.9 to 9.5 percent. The monthly economic rent for this five-room unit was \$203, or \$63 more than the rent collected.

Philadelphia LHA

The Philadelphia LHA in March 1973 provided housing for 20,776 families, including 523 overincome families. These 523 overincome families, as a group, were paying 10.7 percent of their adjusted incomes for rent and the LHA was receiving about \$441,000 less than it cost to operate and maintain these occupied units. If charged an economic rent, these tenants would have paid about 20.4 percent of their adjusted incomes for rent which is well within the limits established by current legislation.

The following schedule shows the rents paid, the economic rents, and the potential additional LHA revenue by charging the 523 tenants economic rent.

<u>Gross income ranges</u>	<u>Number of overincome tenants</u>	<u>Rent income</u>		<u>Potential additional revenue</u>
		<u>Current</u>	<u>Economic</u>	
\$ 5,000 to 7,999	161	\$141,948	\$252,690	\$110,742
8,000 to 8,999	96	91,044	165,928	74,884
9,000 to 9,999	73	68,580	132,955	64,375
10,000 to 10,999	51	49,056	95,025	45,969
11,000 to 11,999	45	43,320	87,101	43,781
12,000 to 12,999	23	22,080	44,388	22,308
13,000 to 13,999	17	16,860	33,002	16,142
14,000 to 14,999	14	12,840	27,062	14,222
15,000 to 17,499	25	24,192	51,648	27,456
17,500 to 19,999	9	9,180	19,636	10,456
20,000 to 28,813	9	8,604	19,306	10,702
Total	<u>523</u>	<u>\$487,704</u>	<u>\$928,741</u>	<u>\$441,037</u>

The highest adjusted family income for overincome tenants at the Philadelphia LHA was \$25,987. This family consisted of six members with a female head of household. Five were adults who each had a separate source of income. Four were employed and one was receiving assistance from the Pennsylvania Department of Public Welfare. They were occupying a 3-bedroom apartment and were paying \$85 a month rent, amounting to about 4 percent of their adjusted income. Under the economic rent concept, this family would be charged \$165 a month for the 3-bedroom apartment.

An overincome tenant at the Philadelphia LHA at the lowest income level, under certain circumstances, could pay at least a monthly rent of \$105 without exceeding the 25-percent limitation. LHA officials said they had a policy of not charging overincome tenants rent of more than \$85 a month. Overincome tenants, however, were actually paying a wide range of rents, as shown in the following table.

<u>Range of monthly rents</u>	<u>Number of overincome tenants</u>	<u>Percent</u>
\$21 to \$30	2	0.4
31 to 40	1	0.2
41 to 50	26	5.0
51 to 60	25	4.8
61 to 70	96	18.3
71 to 80	1	0.2
81 to 90	369	70.5
91 to 100	3	0.6
Total	<u>523</u>	<u>100.0</u>

LHA officials said that the wide range of rents paid was due to a LHA rent freeze. Also the LHA allowed tenants to pay rent at their old rate pending LHA policy decisions.

In a letter dated June 26, 1973, the Philadelphia LHA requested HUD to approve revised admission and continued occupancy income limits and establishment of a monthly rent of \$150 for overincome families, effective July 1, 1973. The specific paragraphs of this letter dealing with overincome tenants are quoted below.

"Tenants who are found to be overincome at the time of re-examination will have their rents reset and will be charged One Hundred Fifty Dollars (\$150), which will be the new overincome rent.

"During the first year of the implementation of this new rental formula (July 1, 1973 - July 1, 1974) rents for those tenants receiving increases will be increased no more than Twenty Five Dollars (\$25) per quarter until the rent is adjusted to the required level."

HUD approved the income limits and ceiling rents and the LHA decided to implement them on January 1, 1974, rather than July 1, 1973. In April 1974 the revised income limits and ceiling rents had not been implemented because the LHA was waiting until the revised rates could be discussed with tenant representatives. At that time, an election was to be held to select the tenant representatives.

NEED FOR LHAs TO REVISE RENT SCHEDULES

LHAs are responsible for establishing rent schedules subject to HUD approval. LHAs are not required to revise their rent schedules periodically. Of the 14 LHAs we visited, several had not revised their rent schedules in a timely manner.

<u>Date rent schedule last revised</u>	<u>Number of LHAs</u>
Before 1970	5
1970	2
1971	2
1972	4
1973	1
	<u>14</u>

All of 14 LHAs we visited were charging tenants lower rents than allowed under existing statutory limitations. During fiscal year 1973, 7 of the 14 LHAs experienced an operating loss and depended on operating subsidies for financial solvency. The other seven LHAs received no subsidy during that year; however, three experienced a reduction in their operating reserves. This situation was noted at the Upland LHA.

Upland LHA

The Upland LHA charged tenants the lesser of a fixed rent based on unit size or rent calculated per the Brooke amendments. The fixed-rent schedule had not been revised since 1968 and resulted in rent charges of as little as 29 percent for similar housing on the private market. HUD regulations permit rents up to 80 percent of market for comparable housing, provided that it does not exceed the 25-percent limitation.

As of May 1973, 42 of the 82 tenants in occupancy paid a fixed rent which was less than the maximum allowed under Brooke amendments. Of the 42 tenants, 32 paid 20 percent or less of their incomes for rent and 15 paid 15 percent or less.

The Upland LHA could generate about \$15,000 additional annual revenue by increasing the rents charged tenants up to the maximum allowed by Brooke amendments and still be within the 80 percent maximum. The increased revenue would reduce the need for the LHA using its operating reserves to cover its operating losses and would reduce the likelihood that it would become dependent upon Federal operating subsidies.

The Upland LHA received no operating subsidies in fiscal year 1973 but anticipated an operating loss of about \$26,000 for that year. Upland had built up operating reserves in previous years and as a result was ineligible for a subsidy under HUD's formula used to allocate operating subsidies. This expected \$26,000 loss would reduce Upland's operating reserve to about \$16,000. Therefore, if operations continue at the same levels in 1974, Upland's reserve will be exhausted and a subsidy will be required to prevent fiscal insolvency.

CONCLUSIONS

Opportunities exist for LHAs to collect additional rent from tenants without exceeding existing statutory limits. Large and small LHAs need to reexamine their

present rent schedules, consider the opportunities available for increasing their rent revenue, and reduce their dependence on Federal operating subsidies.

LHAs' serious financial and management problems and their increasing dependence on Federal operating subsidies require that HUD more aggressively fulfill its statutory responsibility of insuring that low-rent public housing projects are operated and maintained by LHAs in a manner which promotes efficiency, economy, and service-ability.

RECOMMENDATION

We recommend that the Secretary of HUD establish procedures requiring LHAs, as a prerequisite to receiving annual operating subsidies, to develop and maintain equitable rent schedules which appropriately reflect LHA costs, recognize the tenants' ability to pay, and are consistent with current statutory limitations.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report, HUD stated that, for the most part, it concurred with the above recommendation. (See app. IV.) HUD said that it had been somewhat restrained in advocating rent schedule increases because maximum responsibility was vested in LHAs before the Housing Act of 1974 was enacted. Therefore, HUD had primarily relied on informal approaches and financial pressure generated by the limitation of operating subsidies. HUD supported the following legislation, which was incorporated in the Housing Act of 1974:

"The Secretary shall not make annual contributions to a public housing agency for the operation of low-income housing projects in any year unless the aggregate rentals collected for such year from families residing in the dwelling units owned by that agency are not less than an amount equal to one-fifth of the sum of the incomes of all such families * * *"

As of November 1974, HUD had not issued regulations implementing this provision of the law.

HUD said that its indirect action with respect to rent schedules had not been entirely unsuccessful because 9 of the 14 LHAs we examined had revised their rent schedules since 1969. Although the rent schedules may have been commensurate with tenants' ability to

pay at the time of establishment, at the time of our review the rents being charged were not in line with the tenants' ability to pay, as demonstrated in this report.

HUD questioned the idea of charging all overincome tenants an economic rent or charging them 25 percent of their income for rent. HUD said that its policy for establishing ceiling rents was based on the principle of comparability. This is based on an interest in retaining the so-called "model" or "leader" families who would move if rent charges were more than the amounts they would be required to pay on the private market.

We were not suggesting that all overincome tenants be charged an economic rent; we used the overincome tenants and the economic rent concept to show that LHAs can increase their revenues by charging public housing tenants rents more in line with the tenants' ability to pay and the cost of operating the units they occupy, without exceeding statutory limits.

Our example relating to charging overincome tenants an economic rent not to exceed 25 percent was referring to a minimum rent, not a ceiling rent as HUD commented on. HUD's basic objection to charging overincome tenants an economic rent is that these "model" tenants would probably leave public housing. It should be noted that (1) legislation in effect at the time of our audit required overincome families to move if private housing within their financial reach was available and (2) HUD sponsored the language that was incorporated in the Housing Act of 1974 limiting operating subsidies to LHAs if aggregate rentals collected by LHAs were less than an amount equal to one-fifth of the sum of the incomes of all such families.

CHAPTER 4

IMPROVEMENTS NEEDED IN LHAs' RENT COLLECTION EFFORTS

Rents paid by tenants are LHA's primary source of operating income. LHA's failure to collect rent when due contributes to its financial deterioration and possible dependence on operating subsidies for financial solvency. Accounts receivable (rent delinquencies) at 14 LHAs we visited ranged from 21 percent of annual operating income at the Philadelphia LHA to zero for two small LHAs. LHAs with accounts receivable had balances ranging from \$2.8 million at Philadelphia to \$78 at Munday.

During fiscal years ended in 1973, these 14 LHAs¹ had collection losses totaling about \$1.2 million, ranging from zero for Burkburnett to about \$954,000 at Philadelphia. As a percent of annual income, they ranged from zero at Burkburnett to 7.1 percent at Philadelphia. Collection losses are uncollectable rentals or other charges owed by tenants who are no longer occupying a LHA dwelling unit. On a nationwide basis, LHAs' collection losses increased about 100 percent from 1960 to 1972.

LHAs are required to periodically submit reports on their financial condition to HUD area offices. One such report contains information on tenants' accounts receivables which is submitted quarterly. Officials at HUD's Dallas, Los Angeles, and Philadelphia area offices told us they did not monitor these reports to determine whether a LHA was experiencing a rent collection problem. Generally after a report is received in the area office it is checked for mathematical accuracy and filed with no followup.

HUD issued a LHA management handbook in August 1961 giving LHAs guidelines for establishing rent collection procedures. The handbook stated:

¹Fiscal year 1972 data for two LHAs.

"Sound rent collection principles and techniques which are promptly, consistently, and impartially applied contribute to the efficient operation of low-rent housing. It has been found that an excellent rent collection record can be achieved by adopting a firm rent collection policy and adhering to it."

* * * * *

"The importance of following a firm rent collection policy from the outset is evidenced by the experiences of Local Authorities which have permitted tenants to develop undesirable rent-paying habits. The subsequent change to strict rent collection policy has caused serious family hardships and adverse tenant and public relations. Charges of unfair and unsympathetic treatment have been leveled at these Local Authorities by the affected tenants and the local community."

The 1961 HUD handbook gave the following guidelines to LHAs for collecting rent.

"On the fifth (sixth or seventh) day of each month, every tenant who has not paid his rent (or does not have an approved extension in writing) is sent a notice informing him that if his rent is not paid within two (three or four) days, eviction proceedings (or whatever legal action the Local Authority commonly uses, e.g., Warrant of Distraint) will be started against him. This notice makes it clear that if he vacates without paying he is still liable for the rent and that judgment will be obtained.

"If the tenant has not paid up or secured an approved extension within the time stated in the notice, eviction action is started. The date for filing the eviction action is usually the tenth of the month or, in any event, a date which will ensure the eviction, if it becomes necessary, before the end of the month.

"The time for taking the next action varies considerably. In some localities the actual eviction can be made on the fourth day after the eviction papers are served on the tenant. In others it is two weeks before the next action is taken, which results in giving the tenant additional time to pay his rent plus the costs. Partial payments generally are not accepted after the eviction action is initiated since such acceptance may prejudice the case."

The Housing Act of 1974 requires every annual contribution contract to provide that LHAs shall comply with such procedures as prescribed by the Secretary of HUD to insure the prompt payment and collection of rents and the prompt processing of evictions in the case of nonpayment of rent.

The 14 LHAs we visited had generally adopted rent collection procedures similar to those described in HUD's handbook. However, some of these LHAs were not aggressively carrying out their procedures. Of the 14 LHAs, Philadelphia and Dallas were experiencing the greatest problems with rent delinquency; both depend on operating subsidies for financial solvency.

The following problems at these two LHAs illustrate what happens when an LHA does not aggressively carry out its rent collection procedures.

PHILADELPHIA LHA

In recent years, the Philadelphia LHA has had a serious problem with rent delinquencies. The following table of tenants' accounts receivables and collection losses for fiscal years ended March 31, 1968 to 1973, shows the magnitude of the problem and how it became progressively worse.

<u>Fiscal year</u>	<u>Accounts receivable</u>	<u>Collection losses</u>
1968	\$ 39,655	\$ 16,781
1969	66,593	21,745
1970	468,611	75,408
1971	2,491,264	509,034
1972	3,363,585	1,228,572
1973	2,846,417	954,518

The Philadelphia LHA received about \$24.5 million in Federal operating subsidies during its fiscal years 1971 to 1973.

LHA officials said the principal reason for the increase in accounts receivable was that more than one-half of the tenants (about 11,000) stopped paying rent. The problem began in March 1969 when pressure from the tenants caused the LHA to sign a memorandum of understanding with the tenants' councils of two projects stating that "the authority shall cease using constables and shall not invoke any other distraint procedure to collect overdue rent * * *." The agreements reached in this memorandum were later applied to all Philadelphia projects and Pennsylvania disbanded the offices of constables responsible for serving eviction notices. Without constables, the only way the LHA could evict a tenant was through the courts. This presented two problems: (1) the Sheriff's Office did not have the manpower to evict large numbers of tenants and (2) each eviction would cost the LHA about \$400. For all practical purposes, the LHA stopped evicting tenants who were delinquent in rent payment.

LHA officials told us that, when tenants became aware of the fact that the LHA was not enforcing its rent collection procedures, the number of delinquent tenants increased. Another contributing factor was that in July 1969 the rents of welfare tenants were increased in line with the higher shelter allowance authorized by the State. Some welfare tenants refused to pay the higher rent and continued to pay at the old rate. LHA officials told us that when tenants found that they could get away with paying only the old rent, many stopped paying rent altogether.

From March 1969 to March 1970, the tenants' accounts receivables increased by more than 600 percent. This situation continued to grow worse until August 1972, when a new LHA executive director was appointed for a 6-month period to correct many LHA problems, including that of rent delinquency. At that time about one-half of the tenants (about 11,000) had stopped paying rent and the tenants' accounts receivables totaled over \$3 million. The LHA was operating under a deficit budget, and it was evident that immediate action was necessary to increase income and reduce expenditures if bankruptcy were to be averted.

In October 1972 the LHA initiated an aggressive rent collection campaign which was communicated to all tenants by direct mail, press, radio, and television. The new rent collection policy generally required tenants to start paying their monthly rent and work out an arrangement with the LHA for paying their overdue rent or be subject to eviction.

By November 15 there were about 3,900 tenants who had not complied with the new rent collection policy. The files on these tenants were turned over to court-appointed Landlord-Tenant Officers who, within 72 hours, served lease termination notices on the delinquencies. The 3,900 tenants were notified that they were required to pay the current month's rent and one-half of their overdue rent.

By December 1972 there were 1,500 tenants who still continued to ignore the new policy, and LHA officials considered them to be hardcore delinquents who had to be evicted. Because most of them were welfare recipients who received specific shelter allowances to cover the cost of their rent, the LHA proposed to the Pennsylvania Department of Public Welfare that a shelter allowance be given only to recipients who produced a rent receipt proving that their prior month's shelter allowance had been used to pay their rent. The department rejected this proposal. As an alternative, the LHA asked the department to send the shelter allowance for all welfare tenants directly to the LHA (vendor payments). The department authorized the use of vendor payments for 2,500 welfare recipients. Vendor payments are discussed in detail on page 28.

According to LHA officials, the LHA is taking action to use vendor payments for all the welfare tenants who are chronically delinquent in paying rent. As of April 1974, the LHA had about 1,100 tenants whose rents were being collected by vendor payments.

In November 1972 the LHA began to regularly collect back rent from delinquent tenants. However, as of March 31, 1973, the LHA still had a severe rent delinquency problem in that there were 7,907 delinquent tenants of whom 4,247 were located in scattered sites.¹ Scattered site projects had a delinquency rate of 63.7 percent compared with 24.4 percent for the other projects. Of scattered-sites tenants, 90 percent were welfare recipients.

Local laws permit eviction for nonpayment of rent and the LHA has used this procedure to encourage payment of rent. The LHA evicted 231 tenants during its 1973 fiscal year. Evictions and threats of eviction have been used to reduce delinquency, but evictions are used only as a last resort.

¹Scattered sites--housing units located throughout a community to achieve social and economic neighborhood mix and to provide anonymity for public housing tenants.

DALLAS LHA

As of May 31, 1973, the Dallas LHA had an accounts receivable balance of about \$260,000 and had written off collection losses of about \$142,000 during its fiscal year 1973. About \$155,000 of the accounts receivable balance was owed by tenants still residing at the LHA. Most of the accounts receivable and collection losses resulted from tenants' refusal to pay retroactive rents and from nonpayment of rents by recipients of aid to families with dependent children (AFDC).

The Housing Act and HUD procedures require LHAs to reexamine the incomes of tenants annually (biennially for elderly tenants). At this time LHAs usually adjust tenants' rent to account for increases or decreases in tenants' family incomes. The Dallas LHA also adjusts tenants' rent anytime between the reexamination dates when it becomes aware of changes in tenants' incomes. Many tenants failed to notify the LHA of income changes. Subsequently, when the Dallas LHA found out about the tenants' income changes, it charged the tenant a retroactive rent to recover the increment rent that the tenant would have been required to pay.

The LHA's rent collection procedures state that by the 15th day of each month those tenants who have not paid the current month's rent are to be sent notices to vacate or pay their rent. Formal eviction action can start 3 days later. LHA officials told us, however, that they had not carried out their rent collection procedures in a firm and consistent manner.

Our analysis of the accounts receivable balance as of May 31, 1973, showed about 3,560 delinquent accounts, of which 356 were for amounts greater than \$200. These 356 accounted for about \$158,000 of the total \$260,000 accounts receivable balance. When considering that the LHA average monthly rent is about \$32, the 356 tenants obviously did not pay rent for a long duration.

LHA officials told us that (1) they have not been consistently carrying out their rent collection procedures because evicting a large number of tenants would increase the LHA's vacancy problem and (2) the LHA would need to be more firm and consistent in carrying out rent collection procedures to reduce rent delinquencies and collection losses.

In addition to rent charges, tenants are charged for services and commodities furnished by the LHA, such as tenant-responsible repairs and garbage cans. According to Dallas LHA officials, collection of these charges has been made difficult since 1965 because a Federal court order was secured requiring an administrative hearing for all evictions except those for nonpayment of rent.

Collection losses, the amount of accounts receivable owed by tenants no longer occupying a dwelling unit in a LHA, are written off by the LHA after collection attempts have been unsuccessful. Our analysis of the collection losses at the Dallas LHA for August 1973 showed the following writeoffs.

	<u>Accounts written off</u>	<u>Amount charged off</u>	<u>Average per account</u>
Retroactive rents	54	\$12,074	\$224
AFDC recipients	145	10,156	70
Other	<u>73</u>	<u>9,573</u>	131
Total	<u>272</u>	<u>\$31,803</u>	\$117

Collection losses from retroactive rents and AFDC recipients during August 1973 represented 69.9 percent of the total collection losses.

VENDOR PAYMENTS

Welfare recipients accounted for a large part of delinquent rents and collection losses at the Philadelphia and Dallas LHAs. As shown in chapter 2, a large percentage of all families in public housing depend on some type of public assistance. These tenants' failure to pay their rents when due has contributed to the LHAs' serious financial losses.

AFDC legislation permits, at the option of each State, public assistance agencies to make protective and vendor payments, on an individual basis, for up to 10 percent of the recipients in each State if special conditions are met, including holding an administrative hearing for each welfare recipient before the use of vendor payments.

In January 1972 the Philadelphia LHA and the Pennsylvania Department of Public Welfare agreed to use vendor payments to protect children of families with money-management problems

that could adversely affect the lives and security of the children. The Pennsylvania Department of Public Welfare authorized a vendor payment system for up to 1,000 Philadelphia LHA resident AFDC recipients who were substantially in arrears in their rent payments. This authorization was increased to 2,500 recipients in July 1973. LHA officials believe the use of vendor payments for these tenants will remove the threat of eviction for many welfare recipients with money-management problems. Federal matching funds for these vendor payment cases are being provided by the Department of Health, Education, and Welfare (HEW).

Several of the State agencies' positions varied about vendor payments to LHAs. A Pennsylvania Department of Public Welfare official had no basic objection to the use of vendor payments for rent purposes but believed that the payments should be restricted to welfare recipients who were substantially delinquent.

Texas Department of Public Welfare officials said that, although a workable vendor payment system could be developed, they were not in favor of vendor payments to LHAs and cited the following reasons for their objections.

- Vendor payments would increase the workload of caseworkers and administrative staff.
- The Department is attempting to lower its error rate and believes that the additional workload caused by vendor payments would result in an unacceptable error rate.
- Vendor payments to LHAs would lead others to request direct payments.

California Department of Social Welfare officials said that the State had laws which closely paralleled Federal legislation and that the State was making vendor payments to LHAs on behalf of about 1.2 percent of its AFDC recipients. They voiced no objections to several requirements of the legislation and felt that the 10-percent limitation posed no problems.

CONCLUSIONS

Rental revenues are LHA's primary source of operating income. If a LHA does not aggressively attempt to collect all rents legally due, its financial condition will deteriorate and its need for, or dependence on, operating subsidies will increase.

We believe that rent delinquency problems experienced by the Philadelphia and Dallas LHAs demonstrate what happens when a LHA becomes lenient in its rent collection efforts and amply illustrates the need for all LHAs to effectively carry out their rent collection procedures. HUD should closely monitor the reports containing information on tenants' accounts receivables which it periodically receives from LHAs. When it determines that LHA's rent delinquencies and collection losses have reached an unacceptable level, HUD should take immediate action to assist the LHA in minimizing the problem.

A large number of delinquent accounts at the Philadelphia and Dallas LHAs were those of welfare recipients. Increased use of vendor payments by State welfare agencies directly to LHAs for chronically delinquent welfare tenants who meet the statutory conditions for making vendor payments could reduce LHAs' financial losses.

AGENCY COMMENTS AND OUR EVALUATION

HUD said it is very concerned with the level of accounts receivable and collection losses at LHAs, but it does not concur with our proposal that all operating subsidies be withheld pending effective application of rent collection procedures. HUD pointed out that some LHAs are faced with external circumstances that make effective collection action by a LHA extremely difficult.

Many external factors can limit LHAs' effectiveness in carrying out their rent collection efforts. However, these factors should not prevent HUD from limiting operating subsidies to LHAs which are not aggressively attempting with the means available to them to collect rents legally due. On the other hand, when factors beyond a LHA's control adversely affect the effectiveness of its rent collection efforts, HUD should not withhold operating subsidies from the LHA solely for that reason.

Large increases in rent delinquency and collection losses at LHAs demonstrate a need for HUD to be more involved in monitoring LHA activities. HUD assistance and timely guidance to LHAs is necessary to minimize these problems.

The Congress recognized the need for greater HUD involvement when it provided in the Housing Act of 1974 that HUD was to establish, and LHAs were to adhere to, procedures to insure the prompt payment and collection of rents and the prompt processing of evictions in the case of nonpayment of rent.

With respect to our proposals concerning HUD arranging with HEW to encourage State welfare agencies to make vendor payments to LHAs for housing provided AFDC recipients under certain conditions, HUD concurred and said it would renew its efforts to develop a joint HUD-HEW policy position that will encourage utilization of vendor payments in appropriate cases.

HEW officials told us that they also generally concurred with our proposals. They said they would meet with HUD officials and write to State welfare agencies encouraging them to work with LHAs on this matter.

RECOMMENDATIONS

We recommend that the Secretary of HUD establish procedures requiring (1) LHAs, as a prerequisite to receiving annual operating subsidies, to demonstrate that they are effectively carrying out their rent collection procedures and (2) HUD area offices for those LHAs experiencing an unacceptable level of rent delinquency and collection losses to assist the LHAs in minimizing the problem.

In addition, the Secretary of HUD should arrange with HEW to encourage State welfare agencies to make vendor payments to LHAs for housing provided AFDC recipients who are chronically delinquent in making rent payments and who meet all the statutory conditions related to vendor payments. We recommend also that the Secretary of HUD explore with HEW the development of procedures governing the conditions in which AFDC recipients, at the option of each State, can voluntarily arrange to have a portion of their assistance payments made payable to a LHA for rent purposes.

CHAPTER 5

ACTION NEEDED TO REDUCE VACANCIES AND VANDALISM

As of June 30, 1972, there were approximately 1 million low-rent public housing dwelling units past the initial occupancy stage and under LHAs' management. HUD officials consider a 5-percent vacancy rate as normal and acceptable for low-rent public housing. HUD's 1972 statistical year-book, the most recent available, shows the vacancy rate to be 2.4 percent in units under LHA management and available for occupancy at June 30, 1972. Units under LHA management but not available for occupancy were not included in the vacancy rate. All units under LHA management at June 30, 1972, had about 54,000 vacancies for a 5.5-percent vacancy rate, of which 30,000 were not available for occupancy.

HUD does not have any statistics showing how many of the 30,000 units were not available for occupancy because of vandalism. However, HUD pointed out to us that a special survey on vandalism conducted in 1971 indicated that less than 5,000 units were vacant because of vandalism.

The vacancy rate at the 14 LHAs we visited ranged from 29 percent at the Burkburnett LHA to zero percent at the Newark, Delaware, LHA. These LHAs had a combined estimated loss of \$1.3 million in rent revenue during their 1973 fiscal years due to vacancies.

A HUD official told us that as of March 1974 HUD had not compiled a list of the specific LHAs that had units unavailable for occupancy and the reasons these units were unavailable.

The Housing Act of 1974 provides that when a public housing agency and the Secretary of HUD mutually agree that a housing project is obsolete, making it unusable for housing purposes, a program of modifications or closeout shall be prepared.

VACANCIES

The small LHAs we visited had various reasons for their relatively high-vacancy rates.

--Needle's records indicated a lack of eligible applicants as the cause of its five (10 percent) vacant units.

--Upland and Burkburnett with 12 (12 percent) and 15 (29 percent) units, respectively, vacant, were undergoing physical improvements.

--Munday had 11 vacant units (17 percent), of which 6 had been severely abused and subsequently extensively vandalized. An LHA official estimated the cost to rehabilitate the six units to be \$24,000, or the equivalent of over 4 years' total LHA operating income at present levels.

Therefore, vacancies' reductions in some of the small LHAs visited apparently would not be immediately practical or economical. A discussion of conditions at two of the large LHAs is presented below to demonstrate the vacancy problem in some major city public housing.

Dallas LHA

The overall vacancy rate for the Dallas LHA was 7.3 percent as of December 31, 1972. About 79 percent of the LHA's vacancies were concentrated in the 3,500 unit west Dallas project which was experiencing an 11.9-percent vacancy rate, while the vacancy rates for its other 14 projects were less than 3 percent.

LHA officials attributed their vacancy problem, including West Dallas, to several factors, the principal one being that HUD directed the LHA through its "methods of administration" guidelines to implement a tenant assignment plan in January 1969. HUD's methods of administration consist of tenant selection procedures developed by HUD to comply with the Civil Rights Act of 1964. The LHA's tenant assignment plan provided that applicants be accepted for admission at only those projects where the greatest number of vacancies existed. This meant, primarily, West Dallas and meant that vacancies in other projects would not be filled. Numerous applicants would not accept offers of apartments in West Dallas and many who did moved out after becoming dissatisfied with the overall living conditions at the project.

The LHA, on March 16, 1970, revised its tenant assignment plan, without HUD approval,¹ to admit applicants to projects of their choice. The LHA has been unable to fill the large number of vacancies which accumulated during the 14-month period (January 16, 1969, through March 16, 1970) when the HUD-approved tenant assignment plan was in effect.

¹LHA requested HUD approval around November 1969 but received no reply.

The following table shows vacancies at the LHA in January 1969 when the tenant assignment plan was implemented, in December 1969 before the assignment plan was revised, and the extent of recovery up to May 1973 after the plan was revised.

	Total units	Vacancies		
		<u>1-17-69</u>	<u>12-12-69</u>	<u>5-15-73</u>
West Dallas	3,499	181	557	479
All other projects	2,872	12	203	69

Dallas LHA officials pointed out that the West Dallas area has always been a high-crime area. Officials said that the lack of applicants for the project, only 48 as of April 13, 1973, was attributed to the deteriorated physical condition of the units and grounds caused by vandalism and crime in the area.

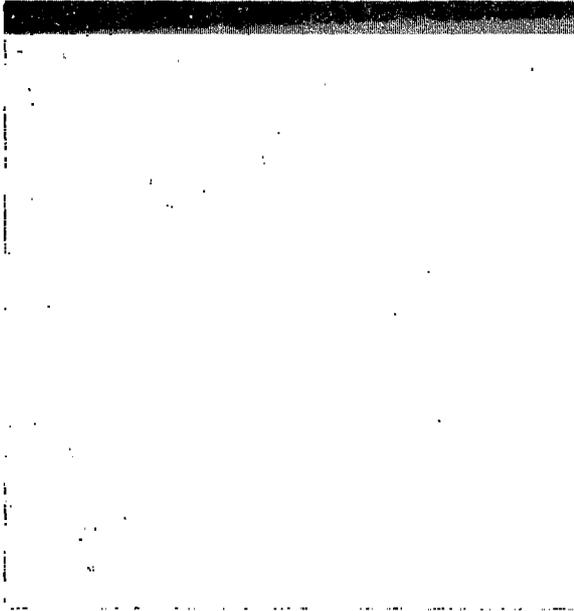
We toured the West Dallas project and noted vandalized apartments with interior walls broken through or completely torn out; plumbing, heating, and electrical fixtures damaged beyond repair; and windows broken out and doors torn off their hinges. We also observed overgrown and trampled-down lawns, overflowing garbage cans, and refuse scattered on the streets and lawns. The photographs on pages 35 and 36 compare housing units at the west Dallas project that are available for occupancy with similar units that have been vandalized. Also, on page 37 are various photographs showing vandalism at the LHA.

We estimated, using LHA-supplied data, that as of May 1973, it would cost about \$137,000 to prepare the 479 vacant units at the West Dallas project for occupancy. This includes about \$62,000 to repair and renovate 101 vandalized units. There were 69 vacancies in the other 14 projects which would require about \$13,800 to prepare them for occupancy.

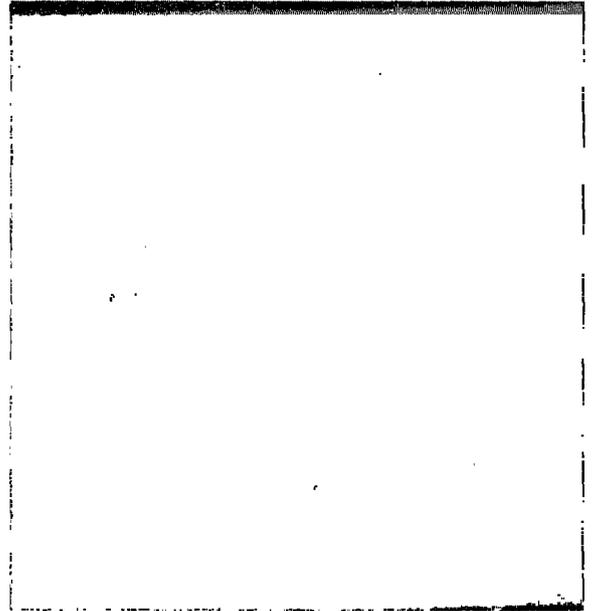
Dallas LHA officials attribute the high rate of vacancies and poor physical condition at West Dallas partially to the poor socioeconomic tenant mix. Of the 3,052 families in residence during April 1973, 2,828 were families with one parent or guardian. There were only 967 workers, including multiple workers in individual families. Some form of public assistance was being received by 2,222 families, of which 1,625 families received AFDC. The average family adjusted monthly income was \$126.

Selected Sites In West Dallas Project

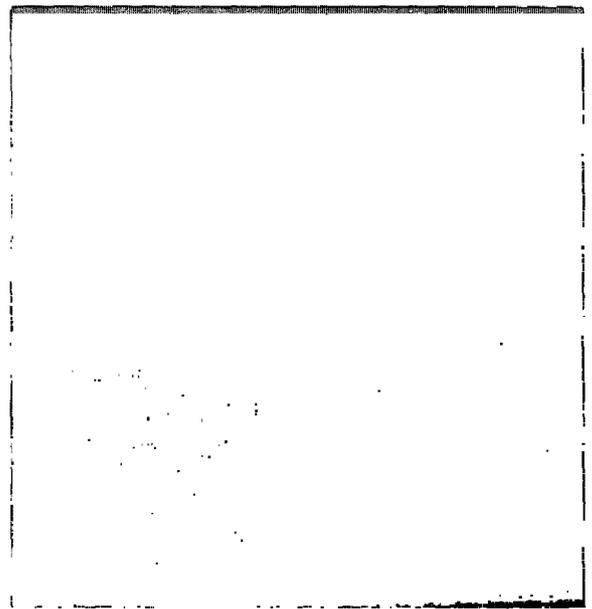
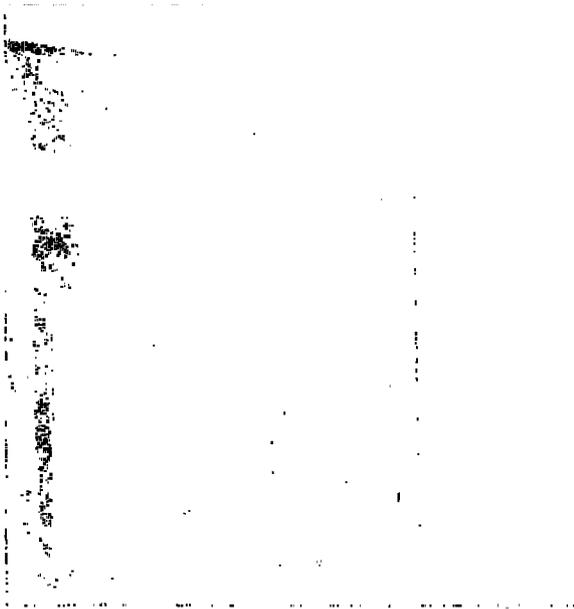
Ready for Occupancy



Vandalized



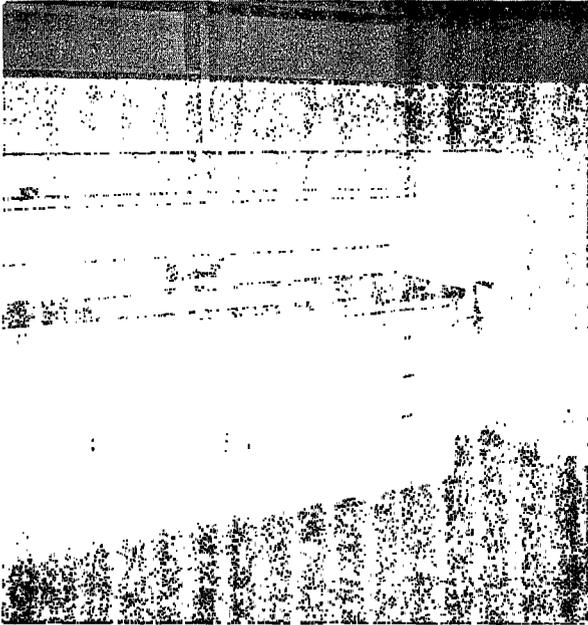
Water heater was taken
from vacant unit.



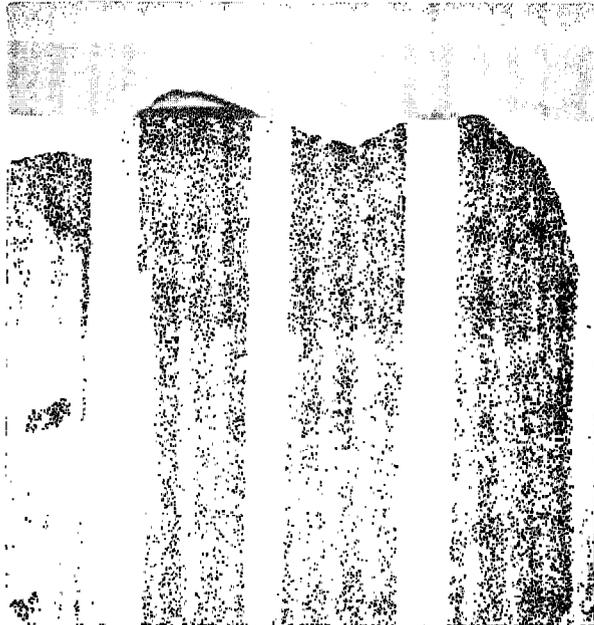
Kitchen walls severely
damaged.

Selected Sites In West Dallas Project

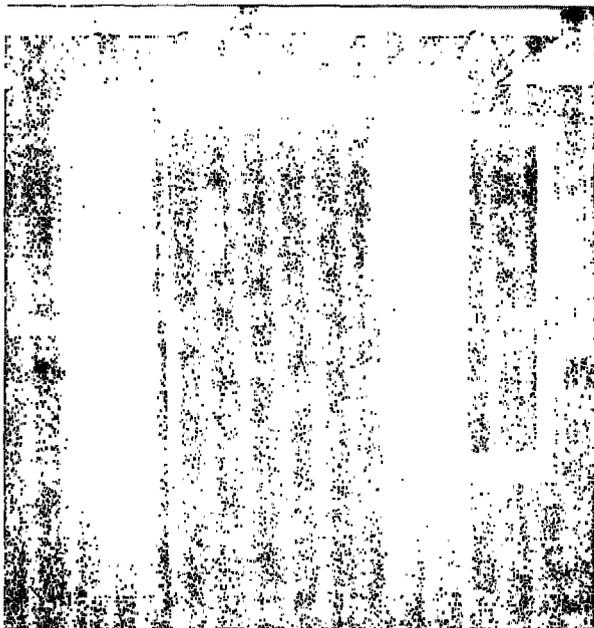
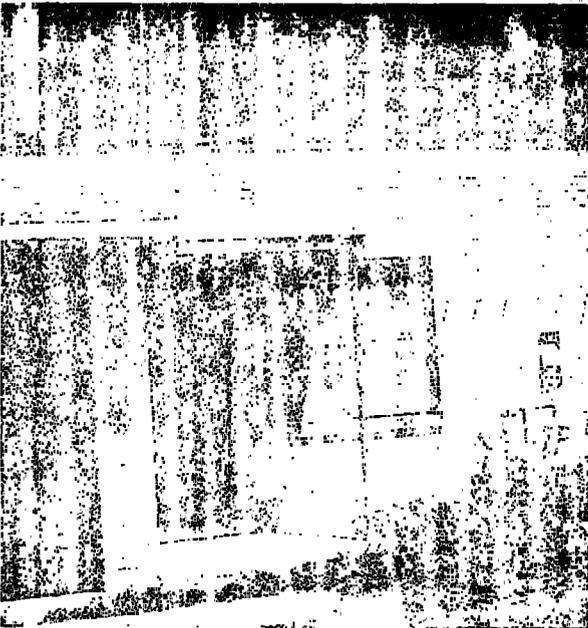
Ready for Occupancy



Vandalized



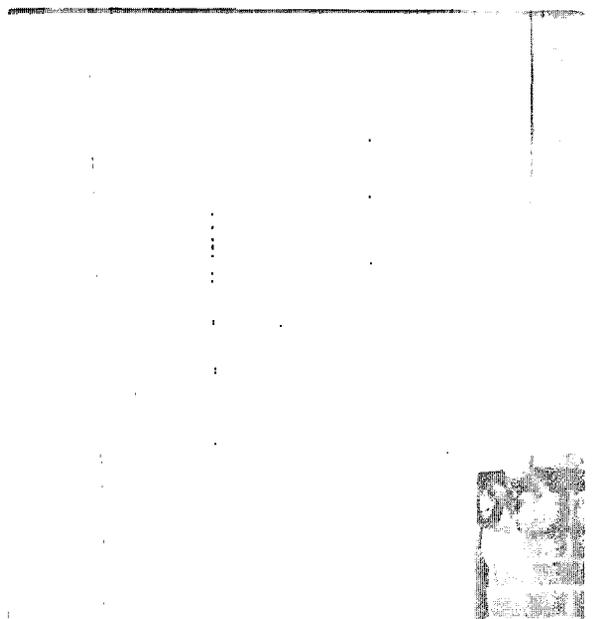
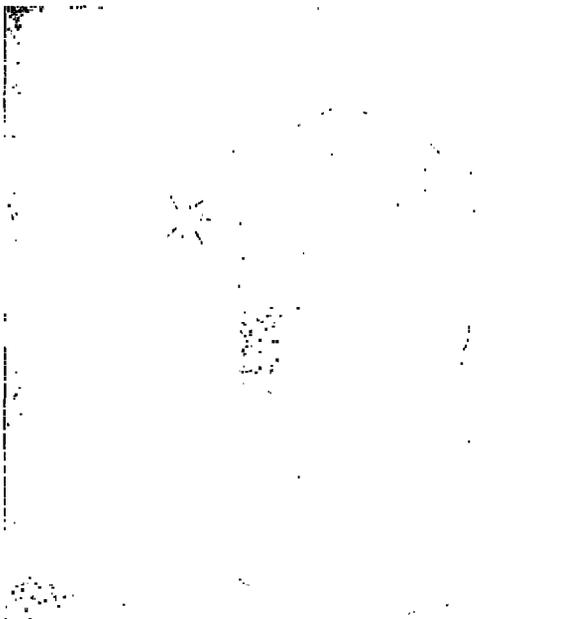
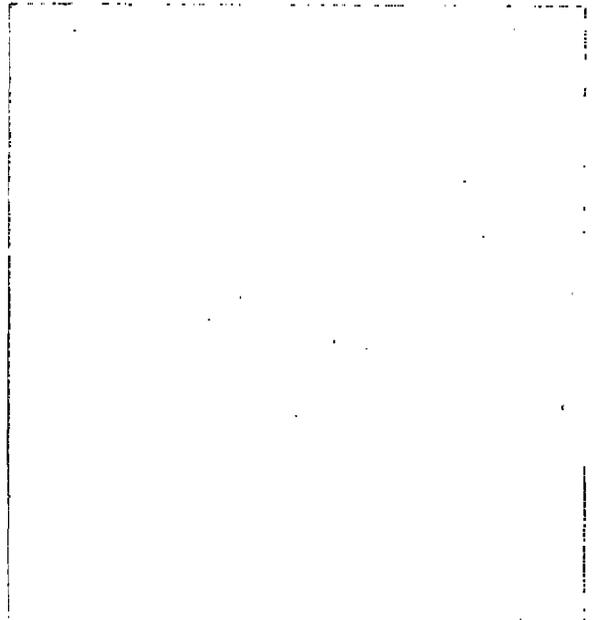
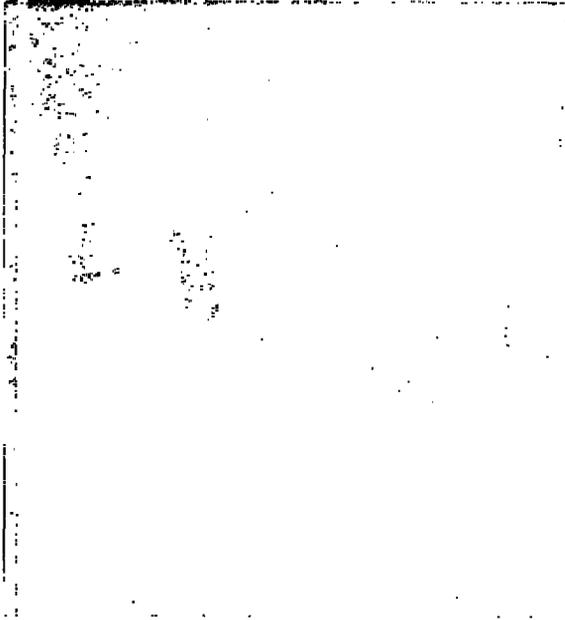
Kitchen wall severely damaged
and fixtures removed.



Door on storage locker
is missing.

Selected Sites In West Dallas Project

Vandalized Housing Units



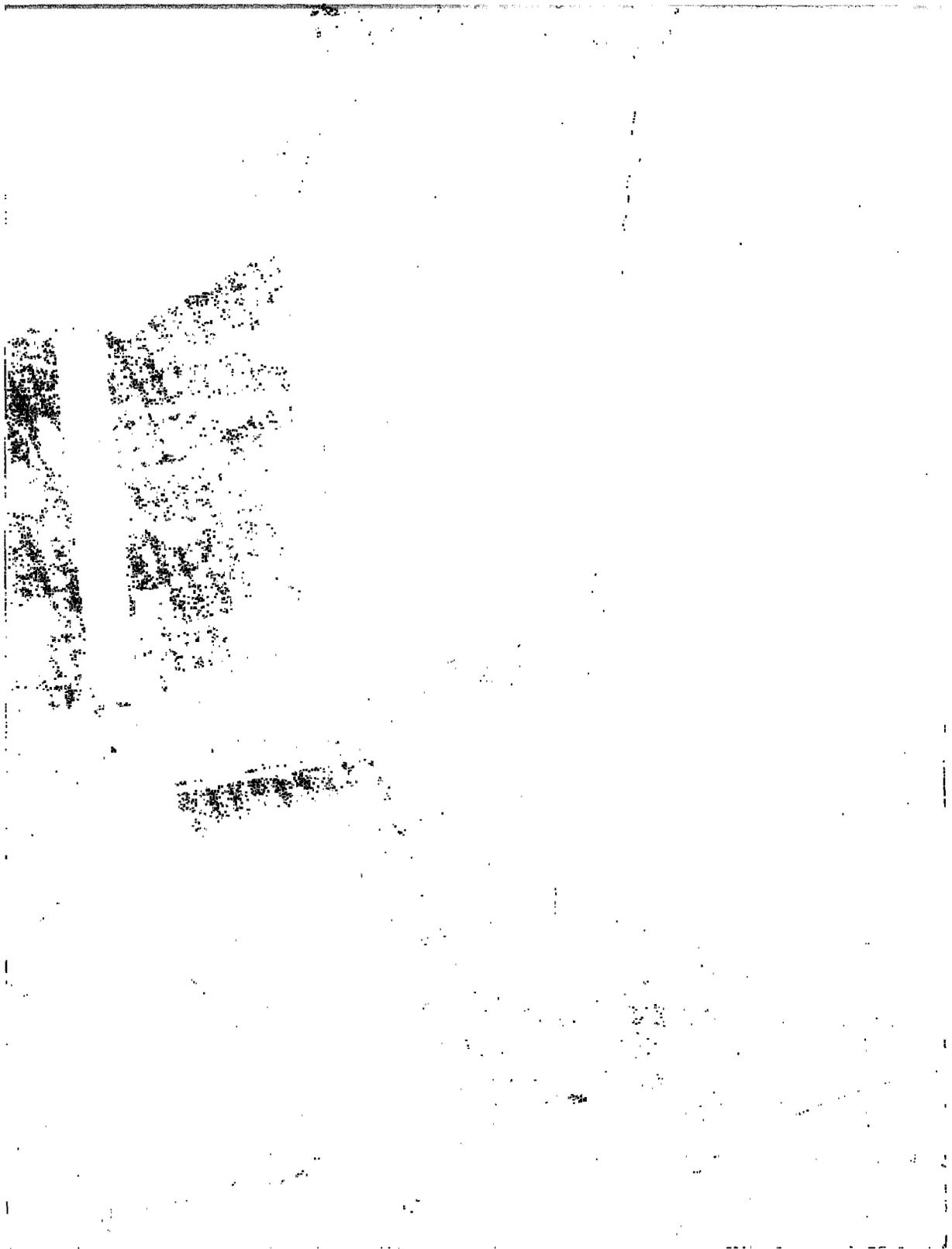
Dallas LHA officials told us that another reason for vacancies in all Dallas projects was competition from other low-rent housing, such as those provided by the Federal Housing Administration and low-rent housing sponsored by religious organizations.

The Dallas LHA discussed with HUD in June 1973 the possibility of obtaining modernization funds to rehabilitate part of the West Dallas project but the LHA did not formally apply to HUD for modernization funds. HUD's fiscal year 1975 budget shows that HUD plans to obligate \$20 million for the modernization program nationally during fiscal year 1974; however, no funds were obligated as of March 15, 1974.

Philadelphia LHA

The Philadelphia LHA had a 5.4-percent vacancy rate as of March 31, 1973. In Philadelphia there are many applicants to fill the vacancies. For example, as of March 31, 1973, there were 11,000 applications for housing units and 1,150 vacancies. The primary reasons for continued vacancies are vandalism and undesirable units. LHA officials consider undesirable units to be those that are left vacant because they are in bad locations or have other unattractive features. LHA records showed that many units have been vacant for over 6 years.

LHA officials said that many vacant units had been occupied by rent delinquent tenants who left without notifying the LHA. They said the units were often vandalized the same day the former tenants vacated, or the tenants themselves vandalized the units before leaving. The problem was more serious in the scattered sites where several days or even weeks would pass before the LHA discovered that a unit had been vacated. Scattered-site vacant units had to be boarded up to protect them from vandals. The officials told us that at times the number of units being vacated was so great that, even when the LHA was aware of a planned vacancy, the available work force could not work fast enough to board up the units before they were vandalized. Sometimes units were vandalized after they had been made ready for the new tenants and before the new tenant moved in. Photographs of vacant and vandalized units are on pages 39 to 42.



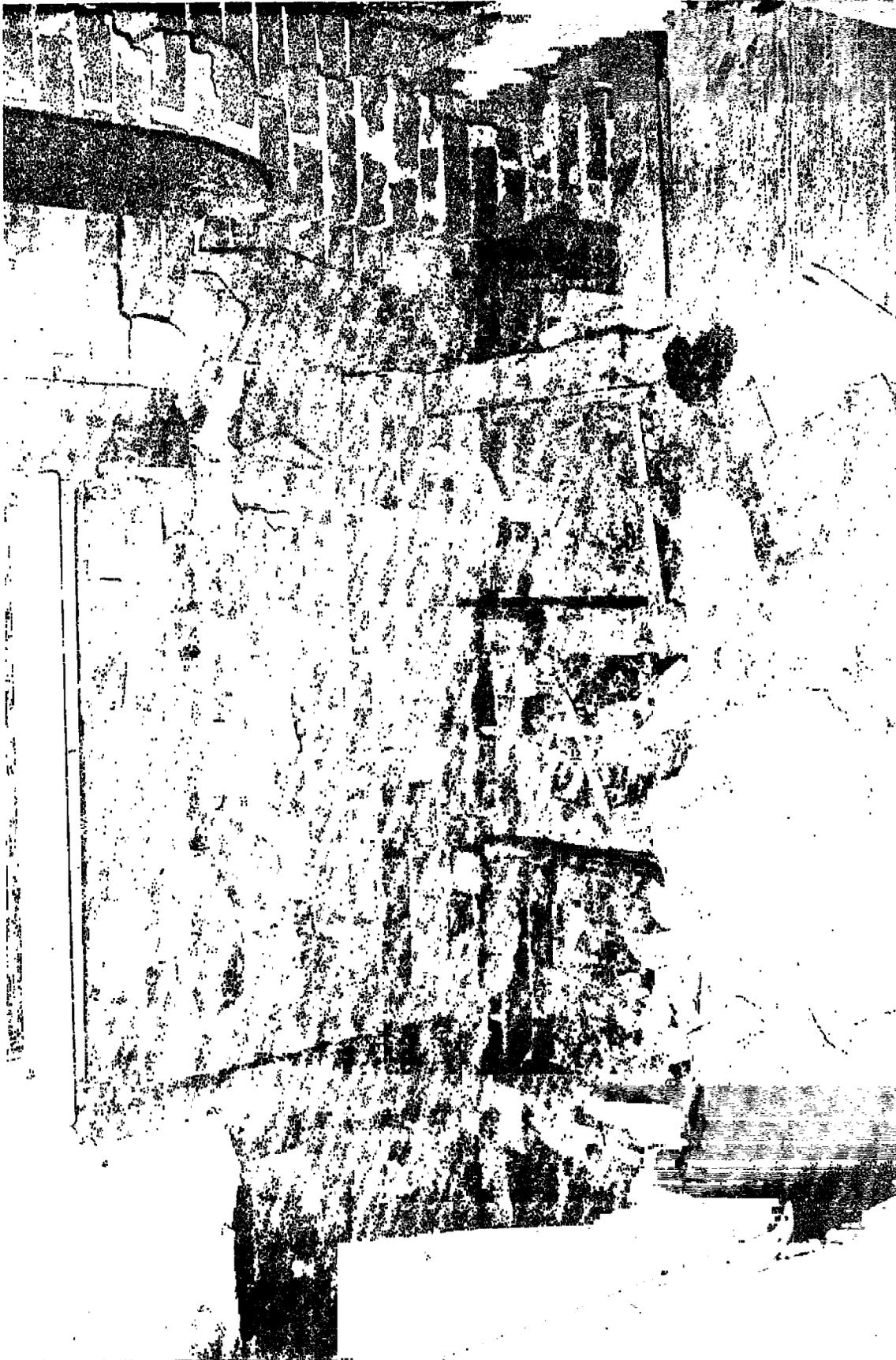
Kitchen severely damaged and
stripped of all fixtures.



Bathroom severely damaged
and stripped of fixtures.



Kitchen and adjoining room
severely damaged and
stripped of fixtures.



Bathroom severely damaged and stripped of fixtures.

As of March 31, 1973, the LHA had 206 uninhabitable units in the scattered-sites projects. Many of these units had been severely damaged by fire or vandals, and 166 were in high-crime areas. The LHA's executive director said that these units had become the breeding grounds of crime and that it was impossible to get tenants to live in them and maintain them. The executive director also said that the LHA had given up on these units and planned to ask HUD to pay for tearing them down. The remaining 40 units were to be rehabilitated by the LHA at an estimated cost of between \$1,500 to \$6,000 a unit.

LHA officials said that many of the projects and about 85 percent of the scattered-site units were in high-crime areas with gang violence, drug addiction, vandalism, and theft. LHA officials said the situation had a strong impact in Philadelphia because most public housing families were headed by females who were more vulnerable to these adverse conditions.

The Philadelphia LHA acquired and rehabilitated scattered-site units during the period 1967 to 1972 at a cost of \$2.76 million to be used for rental to low-income families. LHA officials said some units, which had never been lived in, were vandalized the day after they were acquired. Most of them have been vacant since 1967. Some examples of the cost of houses that had never been occupied are:

<u>Unit site</u>	<u>Cost</u>
Single-family home	\$16,200
Duplex	26,810
Triplex	35,710

The LHA had 725 vacant units on May 18, 1973, at projects other than scattered-sites projects, and 367 of these were in three projects. Of these vacant units, 53 were available for occupancy but could not be rented. In a May 1971 LHA management report, HUD described some of the conditions at the three projects as having:

- Organized gangs, extensive drug traffic, large numbers of unemployed heads of households, and limited recreation space.
- Vandalism and poor security conditions.
- Racial tension between the development and the surrounding community.
- Inadequate indoor community space.

The LHA has taken action to reduce the number of vacancies to make public housing more desirable. The LHA has increased its security force and has provided it with better training to curtail vandalism and provide greater security for tenants. The LHA budgeted about \$2 million for security for fiscal year 1974. It budgeted \$10 million in fiscal year 1973 to partially rehabilitate 560 units, and an additional 350 units were to be rehabilitated using HUD funds of between \$6 and \$7 million. The LHA also budgeted \$1.2 million for the rehabilitation of vandalized units in the scattered-sites program.

VANDALISM

Vandalism is a national problem and low-rent public housing projects are not exempt from the effects of it. According to various LHA officials, the repair and cleaning of abused and vandalized dwelling units and LHA property are costly to LHAs. In 1970 HUD made a study to determine the extent of vandalism in low-rent public housing. About 660 LHAs provided data to HUD on vandalism and estimated that 13.5 percent of their ordinary maintenance and operations expense was caused by vandalism. HUD estimated that vandalism cost all LHAs about \$17.5 million annually.

Vandalism can lead to vacancies because it creates undesirable living conditions in the neighborhoods as well as removal of the units from the market until repairs are made. Vacancies and vandalism are often found together. This is frequently a long period as funds for extensive repairs or rehabilitation are seldom readily available. Vacancies provide the opportunity for vandals to operate undetected. New renters are reluctant to move in and existing renters move out, causing continued and increased vacancies, leading to more and greater vandalism.

Vandalism and tenant abuse or neglect are serious and costly problems that are not confined to areas of low-rent housing. They are problems which are related to people's attitudes and little can be done to minimize them without the cooperation of the people themselves.

CONCLUSIONS

Vacant units at LHAs result in reduced LHA revenue and contribute to further losses through vandalism. Vacancies in low-rent public housing are caused by many factors. The most serious vacancy problems result from vandalism to units that create undesirable living conditions in LHAs and remove the units from serving the intended purpose of housing low-income families.

HUD and LHAs must jointly take action to minimize the problems of vacancies and vandalism. HUD and each LHA that has uninhabitable units must decide on a project-by-project basis whether it's feasible to prepare the units for occupancy or whether they should be demolished.

RECOMMENDATIONS

We recommend that the Secretary of HUD identify all LHAs that have a high-vacancy rate due to uninhabitable units and work with these LHAs to develop a mutually acceptable action plan for (1) preparing the units for occupancy or (2) demolishing the units.

AGENCY COMMENTS AND OUR EVALUATION

HUD agreed with our recommendation and stated that it would proceed to address this problem. HUD said it is currently initiating a Target Projects Program to achieve immediate and visible improvement in the most serious problem public housing projects.

The Target Projects Program is a special short-term effort (2 years) on the part of HUD to upgrade the operational and environmental aspects of selected public housing projects. Funds available under the program are limited, both in amount and duration (\$35 million in 1974 and \$65 million in 1975), requiring that they be provided to those projects having especially serious problems.

We believe that the new Target Projects Program can be an important part of HUD's total effort to reduce vacancies and vandalism in public housing. However, HUD needs a much broader program for working directly with individual LHAs at the first sign of vacancy and vandalism problems to keep these problems to a minimum.

CHAPTER 6

SCOPE OF REVIEW

We reviewed the low-rent public housing program, including the operations of 14 LHAs, to determine ways in which LHAs can improve their operations and reduce their dependence on Federal operating subsidies. We examined financial and statistical records of the various LHAs and HUD offices listed below. We inspected housing units at the 14 LHAs and interviewed HUD Washington and field office personnel and officials of the 14 LHAs.

We made our review at HUD headquarters, Washington, D.C., and at the following HUD regional and area offices and LHAs.

HUD region II, New York City
HUD New York area office, New York City

New York City, New York, LHA

HUD region III, Philadelphia, Pennsylvania
HUD Philadelphia area office, Philadelphia,
Pennsylvania

Philadelphia, Pennsylvania, LHA
Bucks County, Pennsylvania, LHA
Newark, Delaware, LHA

HUD region VI, Fort Worth, Texas
HUD Dallas area office, Dallas, Texas

Dallas, Texas, LHA
Alto, Texas, LHA
Burkburnett, Texas, LHA
Crockett, Texas, LHA
Crosbyton, Texas, LHA
Diboll, Texas, LHA
Munday, Texas, LHA

HUD region IX, San Francisco, California
HUD Los Angeles area office, Los Angeles,
California

City of Los Angeles, California, LHA
Needles, California, LHA
Upland, California, LHA

Since 1969, these 14 LHAs included in our review have received \$152 million in operating subsidies, through their fiscal years ended during calendar year 1973. This represents about 20 percent of HUD's total allocation of operating subsidies for these years. Four of the LHAs received no subsidies during this period. The units under management by these LHAs ranged from 20 units to over 88,000 units. A list of these 14 LHAs along with financial and statistical data is included as appendix I.

FINANCIAL AND STATISTICAL DATA
ON 14 LHAs REVIEWED (note a)

HUD area office and LHA	No. of dwelling units (note b)	Operating income	Operating expenses	HUD subsidy	Operating reserves	Accounts receivable		Collection losses		Number of vacancies	Applications on hand	Overincome tenants	
						Amount	Percent of income	Amount	Percent of income			No.	Percent of total
New York, NY: New York City	88,390	\$83,300,000	\$123,300,000	\$44,828,600	\$24,735,061	\$ 219,208	0.3	\$ 91,482	0.1	b203	b150,000	b12,136	14.0
Philadelphia, Pa.:													
Philadelphia	21,764	13,494,750	28,247,850	13,673,301	3,600,600	2,846,417	21.1	954,518	7.1	1,168	c11,398	523	2.5
Bucks County	415	233,660	256,990	157,320	72,010	6,950	3.0	3,057	1.3	5	527	2	.4
Newark, Del.	77	38,220	42,310	-	5,455	c521	1.4	23	.1	c	c147	c3	3.9
Dallas, Texas:													
Dallas	7,192	2,621,160	5,198,377	2,606,127	1,107,795	260,143	9.9	142,801	5.4	525	d184	b3	.05
Alto	20	6,700	6,050	-	4,116	b	-	872	1.1	-	-	1	5.0
Burkburnett	52	9,790	13,507	-	3,210	-	-	-	-	c15	-	c	-
Crockett	280	105,710	92,689	-	39,874	81	.1	24	.1	4	c	c3	1.1
Crosbyton	26	13,300	10,620	-	5,210	1,124	8.5	345	2.6	1	-	2	8.0
Diboll	344	180,900	165,960	-	47,924	1,250	.7	1,674	.9	14	30	6	1.6
Munday	30	5,440	7,710	2,640	5,738	78	1.4	125	2.3	11	20	-	-
Los Angeles, Calif.:													
Los Angeles	11,485	7,681,850	11,052,780	2,624,795	736,354	95,660	1.2	36,327	.5	151	9,433	145	1.3
Needles	50	36,350	49,660	16,508	3,869	449	1.2	397	1.1	5	3	-	-
Upland	100	58,930	85,270	-	15,989	336	.6	300	.5	12	35	2	2.3

^aData from LHAs' FY 1973 operations, unless footnoted.

^bData from LHAs' FY 1972 operations.

^cData from LHAs' FY 1974 operations.

^dDoes not include 2,000 applicants for projects exclusively for the elderly that had only 3 vacancies.

BEST DOCUMENT AVAILABLE

PRINCIPAL LEGISLATIVE CHANGES AFFECTING
TENANT COMPOSITION IN LOW-RENT PUBLIC HOUSING

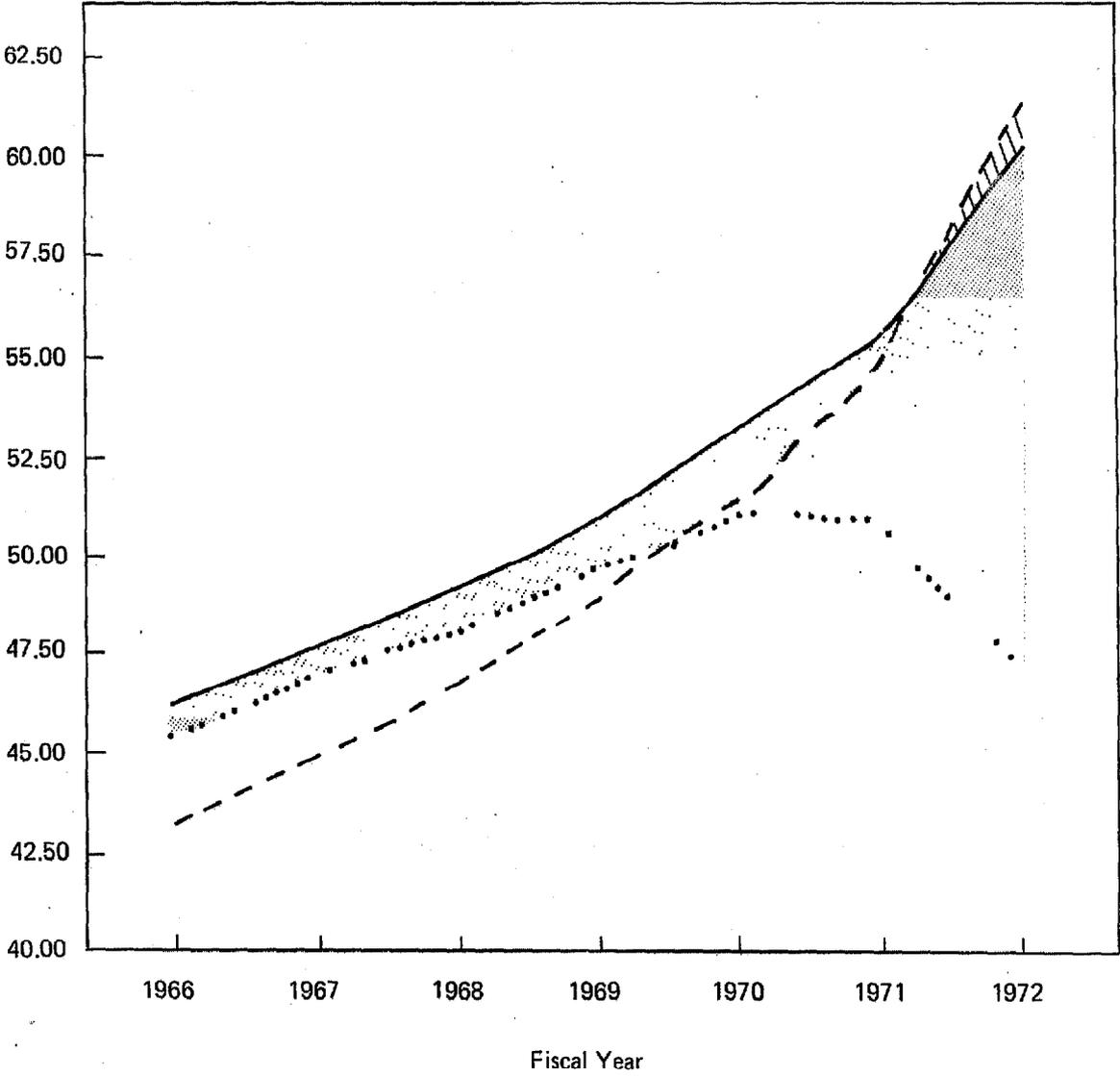
<u>Year enacted</u>	<u>Legislative change</u>
1949	<p>--Established a 20-percent gap between upper rental limits for admission to a low-rent project and the lowest rents at which private enterprise is providing an ample supply of decent housing.</p> <p>--Prohibited discrimination against welfare families in terms of their eligibility for admission to low-rent projects.</p> <p>--Required expulsion from LHA projects of those families whose incomes increased above present limits.</p>
1956	<p>--Permitted single persons aged 65 or over to be admitted in public housing.</p>
1959	<p>--Declared the policy of making adequate provision for elderly and for larger families.</p> <p>--Included as "elderly," disabled persons 50 years of age and over.</p>
1961	<p>--Authorized LHAs to adopt regulations establishing their admission policies for tenants, giving full consideration to the public responsibility for rehousing those displaced by urban renewal or other governmental action.</p> <p>--Extended housing to a wider range of elderly and disabled.</p> <p>--Authorized an additional annual contribution (special family subsidy) up to \$120 a year per unit where required to enable leasing the unit to an elderly family at a rental it can afford and still maintain the project on a solvent basis.</p>
1964	<p>--Permitted admission to low-rent housing of single low-income persons who are displaced by urban renewal or other governmental action, or who are handicapped.</p>

APPENDIX II

<u>Year enacted</u>	<u>Legislative change</u>
1965	--Authorized financial assistance in the form of "rent supplements" to enable Federal Housing Administration private housing to be rented to certain low-income families. While this is not public housing, it serves the same low-income families.
1968	--Authorized payment of a special subsidy of up to \$120 per year for public housing dwelling units occupied by families which include four or more minors or families with unusually low incomes. --Provided an opportunity for low-income families to obtain housing other than low-rent public housing found in section 235 and 236 of the National Housing Act.
1969, 1970 and 1971	--Established 25-percent limitation on rent to be charged tenants.
1974	--Established a minimum rent which every family in regular public housing must pay. Required aggregate rentals collected by a public housing agency receiving operating subsidies to be at least equal to one-fifth of the sum of the incomes of all families in any project. Required at least 20 percent of families in future projects to have incomes not in excess of 50 percent of area median income.

NATIONAL TREND OF LHA TOTAL RECEIPTS AND EXPENDITURES
FISCAL YEARS 1966-1972

DOLLARS
PER UNIT
MONTH



- TOTAL LHA RECEIPTS
- LOCAL INCOME
- - - TOTAL LHA EXPENDITURES
- ▨ FEDERAL SUBSIDIES
- ▩ OPERATING RESERVES



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20413

NOV 4 1974

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING MANAGEMENT

IN REPLY REFER TO:

Mr. Henry Eschwege
Director, Resources and Economic
Development Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

Your letter of June 13, 1974, addressed to Secretary James T. Lynn of this Department transmitting a draft of a report to the Congress of the United States on, "Opportunities For Local Housing Authorities To Improve Their Operations and Reduce Dependence on Operating Subsidies," has been referred to me for reply. Your letter states that copies of the report were sent to my office and to that of the Inspector General of this Department, and were also furnished to the Secretary of Health, Education, and Welfare.

At the outset, let me assert that the Department through its contracts with Local Housing Authorities, its published policies and procedures, and its operating plans and programs has diligently pursued the mandate of the Congress to assure that the Local Authorities at all times operate each Project in such a manner as to promote serviceability, efficiency, economy and stability, and to achieve the economic and social well-being of the tenants thereof.

Our comments below with respect to the findings and recommendations contained in the draft report constitute our carefully considered reply thereto:

GENERAL COMMENTS

We are acutely aware of the basic finding of the Report that in recent years many Local Housing Authorities have been experiencing deteriorating financial conditions and that operating subsidy payments to LHAs

have increased substantially. The primary Departmental effort to deal with the problem of escalating Federal funding requirements has been through the adoption of a "bottom-line" approach; i.e., a limitation of operating subsidy payments to amounts determined pursuant to a formula calculation. This approach has, as collateral objectives, the encouragement of management efficiency on the part of housing authorities, the limitation of Federal oversight requirements and the promotion of local government participation in the provision of funding for the low-rent public housing program.

The payment system currently in effect is an interim system adopted in 1972 which provides essentially for operating subsidies based upon the differential between housing authority expenses and locally produced income as projected from a base year through the application of established inflationary percentages. Admittedly, however, there are several obvious inequities that are inherent in this approach the most significant of which, perhaps, is that it fails to take into account differences in the management efficiency of housing authorities that existed during the base year. Accordingly, the Department, with the assistance of the Urban Institute, presently is examining the feasibility of a new Performance Funding System. This system would be based on a performance standard - what it costs a well-managed local authority to operate. It would take into account such factors as the size of the Authority, the ratio of children to adults housed, the percentage of elderly tenants, the size of the units, central city or suburban location, etc. It would also provide for a realistic and flexible inflation factor.

It should also be noted that during 1973, Housing Management, in accordance with OMB's new "management by objectives" concept, instituted a goals management system. Adopted goals provide a high priority for improving public housing and reducing Federal support requirements and a number of the sub-goals direct attention to the major concerns expressed in the draft GAO report. Specifically, Housing Management will be addressing objectives related to the control of LHA expenses; increasing LHA income through revision of rent schedules, reduction of vacancy losses, and reduction of accounts receivable and collection losses; improvement of the physical condition of project properties; and increased financial participation by local and State Governments.

SPECIFIC COMMENTS ON PROPOSED GAO REPORT RECOMMENDATIONS

"The Secretary of HUD should establish procedures requiring LHAs, as a prerequisite to receiving annual operating subsidies, to develop and maintain equitable rent schedules which appropriately reflect costs being incurred by LHAs, recognize the tenants' ability to pay, and are consistent with current statutory limitations..." (The Report also suggests that "an economic rent for 'overincome' tenants is equitable because it is based on the LHAs cost of providing a unit and these tenants' ability to pay (not to exceed 25 percent limitations)".)

For the most part the Department concurs with this recommendation. It must be noted however, that prior to its amendment by the Housing and Community Development Act of 1974, Section I of the United States Housing Act of 1937 provided in its Declaration of Policy that "It is the policy of the United States to vest in the local public housing agencies the maximum amount of responsibility in the administration of the low-rent housing program, including the responsibility for the establishment of rents and eligibility requirements..." In addition to the statutory requirement regarding local autonomy there was legislative history related to the original Brooke Amendment which indicated that not all families should be charged 25 percent of income for rent.

Because of this legislative background, the Department was somewhat restrained in its advocacy of the adoption of rent schedules providing for increased rent-income ratios and primary reliance was therefore placed upon informal approaches and the financial pressure generated by the limitation of operating subsidy payments to accomplish this purpose. For the same reason, the Department did not believe it feasible to establish specific requirements relating to rent schedules as a prerequisite to the payment of operating subsidies. Unquestionably, any Departmental action in this area would have been litigated and our considered opinion was that a favorable result could probably not be anticipated.

Instead, the Department has sought legislation. The Administration proposal for 1974 (HR 10688), for example, included the following language:

"The Secretary shall not make annual contributions to a public housing agency for the operation of low-income housing projects in any year unless the aggregate rentals collected for such year from families residing in the dwelling units owned by that agency are not less than an amount equal to one-fifth of the sum of the incomes of all such families..."

This provision was ultimately incorporated in the Housing and Community Development Act of 1974.

The Administration legislative proposal also provided for a minimum rent for public housing tenants based on 40 percent of the average operating cost attributable to the unit and for a revised income definition which eliminated automatic percentage deductions, tightened the definition of "dependents" and "secondary wage earners" who qualify for \$300 exemptions, and limited other deductions to extraordinary medical expenses. With some modifications these provisions were also incorporated in the 1974 Act.

Although, with the exception of the legislative proposal, Departmental action with respect to rent schedules has largely been indirect, it has not been entirely unsuccessful. The GAO draft report itself points out that nine of the 14 authorities included in the review (64 percent) have revised their rent schedules since implementation of the Brooke Amendment. These authorities operate over 80 percent of the dwelling units covered in the review. This is probably representative of the situation nationally.

While Departmental proposals for legislation indicate a large measure of concurrence with the GAO recommendation, we are, however, inclined to question the idea of charging all overincome tenants an "economic rent" or 25 percent of their income for rent. We believe instead that the principal of comparability would be a better basis for establishing ceiling rents. This has been the Department's traditional policy position. Largely, it is based upon an interest in retaining in occupancy the so-called "model" or "leader" families needed to maintain project stability who would probably move if rent charges were in excess of amounts they would be required to pay on the private market.

[See GAO note, p. 57.]

The very substantial potential increase in rental income reported in the GAO draft to be realizable by the New York City Housing Authority, of course, is based on the assumption that overincome families would be charged on the basis proposed by GAO. Although the Department believes that the New York authority's rents in several respects may be somewhat low and has so advised the authority on several occasions, we believe the amount of the potential increase, realistically, is substantially overstated.

RECOMMENDATION:

"The Secretary of HUD should establish procedures requiring (1) LHAs, as a prerequisite to receiving annual operating subsidies, to demonstrate that they are effectively carrying out their rent collection procedures and (2) HUD area offices to identify the LHAs experiencing an unacceptable level of

rent delinquency and collection losses and to assist the LHA in minimizing the problem." Also, the draft report proposes that operating subsidy payments be withheld unless LHAs "demonstrate that they are effectively carrying out their rent collection procedures."

Obviously, the Department at all echelons should be vitally concerned with the level of accounts receivable and collection losses and, as noted previously, through the Housing Management goals management system, action has already been taken to intensify the attention directed to these aspects of the public housing operation. We might mention, however, that while the GAO draft is correct in noting that collection losses have increased by 100 percent between 1960 and 1972 (from \$.24 PUM to \$.48 PUM); in terms of percentage of rental income this amounted to an increase from .63 percent to 1.06 percent. Unfortunately, the Department does not have comparable national statistics on accounts receivable. Steps have been taken, however, to correct this deficiency; effective September 30, 1973, LHA operating statements were revised to provide for reporting both accounts receivable from tenants in possession and accounts receivable from vacated tenants. Inclusion of these data elements will permit the Department to follow national trends and identify area offices where problems are developing.

It should also be noted in this connection that, in effect, the Department's current subsidy payment system does not provide for a reimbursement of accounts receivable through operating subsidy payments, except to the extent collection losses were recorded in the base year. Thus, we are already largely adhering to the GAO recommendations.

We do not concur, however, that all operating subsidy payments should be withheld pending effective application of rent collection procedures, and we believe that the GAO draft report itself presents a case study that illustrates one of the major objections to such a policy. In Philadelphia, the report notes that the major increase in rent delinquencies that took place were, at least in part, attributable to changes in legal processes that made eviction and rent collection actions substantially more difficult. It mentions abandonment of distraint procedures, elimination of the Office of Constable by the State of Pennsylvania, and the fact that the Sheriff's office was not staffed to handle a volume of evictions. Our point is that there are some situations where external circumstances make effective action on the part of a housing authority extremely difficult. Withholding operating subsidy payments also would inevitably result in a reduction of services to residents generally and impose undeserved hardships upon families whose rent may be current. The reduction of services additionally would aggravate any resident discontent that may already exist and might well lead to formal rent strikes.

The Department does not consider that our action in proposing legislation to withhold operating subsidy payments in the event rent schedules are not established at a level so as to assure that an average 20 percent rent-income ratio will be attained is in the least inconsistent with our position with respect to rent collections. A very significant basis for differentiating between these situations is that the adoption of rent schedules would almost always be an action that is within the full control of the housing authority's Board of Commissioners whereas, as noted above, in collecting rents, authority action frequently is very largely affected by external circumstances.

The Department's position in this respect was accepted in the 1974 legislation which authorizes the Secretary to promulgate regulations relating to rent collection procedures, but does not require that operating subsidy payments be contingent upon their effective applications.

RECOMMENDATION:

"The Secretary of HUD should arrange with the Department of Health, Education, and Welfare to encourage State welfare agencies to make vendor payments to LHAs for housing provided to welfare recipients who are chronically delinquent in making rent payments."

The Department concurs with this recommendation and will renew its efforts to develop a joint HUD-HEW policy position that will encourage utilization of vendor payments in appropriate cases. We should mention that extensive discussions to this end were held in 1971 and 1972 in conjunction with the meetings of a Joint HUD-HEW Task Force on Welfare Rents in Public Housing. At that time no such agreement could be developed.

RECOMMENDATION:

"The Secretary of HUD should identify all LHAs that have a high vacancy rate due to uninhabitable units and work with these LHAs to develop a mutually acceptable action plan for either (1) preparing the units for occupancy or (2) demolishing the units.

Essentially, we are in agreement with this recommendation;

[GAO note: Material has been deleted because of changes to final report.]

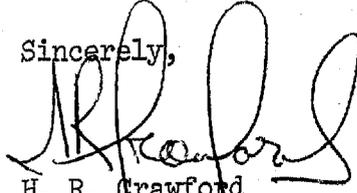
[See GAO note, p. 57.]

The Department will proceed to address this problem. In doing so, however, we should point out that there are complicating factors. The West Dallas project, discussed in more detail in the GAO draft, is a case in point. In situations of this kind the prudent response may very well be to renovate dwellings to the extent that they can be rented. As the report points out, the project is located in a high crime area and demand for the units consequently is limited. An immediate repair or demolition decision, therefore, would probably be inappropriate. We shall need to address instead the serious operational problems that exist. For this purpose the Department currently is initiating the Target Projects Program. This is a major Departmental effort involving a commitment of \$35 million in 1974 and \$65 million in 1975 directed to the achievement of immediate and visible improvement in the public housing program's most serious problem projects. This program, we are convinced, will go a long way toward a solution of the problem discussed in connection with this recommendation.

[See GAO note, p. 57.]

We feel certain that our efforts and our revised policy approaches directly address the situation covered in the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read 'H. R. Crawford', written over the typed name below.

H. R. Crawford
Assistant Secretary

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